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**The Emergence of Private Authority in  
the Oil Industry: the Case of Oil  
Concession Agreements**

**One Volume**

**Harit Intakanok**

**Department of Geography, Durham University**

**A thesis submitted for the degree of Doctor of Philosophy**

**2010**

## **Abstract**

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### **The Emergence of Private Authority in the Oil Industry: the Case of Oil Concession Agreements**

**Harit Intakanok**

This thesis situates itself in a context that has become a feature of the globalizing world – the emergence of private authority in global governance and the transformation of the power of the state. As the title suggested, the thesis investigates the emergence of private authority in the oil industry by concentrating on the negotiation and implementation of various oil concession agreements of the past in the period between 1900 and 1960. The analysis employs qualitative methodologies, taking experiences of private actors through archival research using case study concentrating on four countries in the Middle East region, namely, Saudi Arabia, Kuwait, Iran and Iraq. The examination of each case focuses on the oil concession agreement that is pivotal to the structural transition of oil industry, hence power/authority transition. The relationship between public and private authorities involved in the case study is the key to the emergence of private authority. The public-private interaction that allows this relationship to establish and develop is also important to the process. Other factors such as inter-firm cooperation; resources in the form of finance and expertise; and political, economic and social climate also contribute to the process which allow private authority to emerge and operate. Despite the fact that identifying these factors permits us to gain better understanding of the concept of private authority, it is still difficult to pinpoint the exact moment it emerges and the clear location it operates. Private actors today play a major role in global governance, affecting the political, economic and social development both at national and international level, thus, the exact of its route and the true impact of its existence need to be clarified. The findings from the research have great relevance to the theorizing of the concept of private authority. It provides powerful insights into debates regarding the emergence and operation of private authority both in historical and contemporary perspective. The findings also give us better knowledge of the nature of private authority in term of its various forms and functions.

## Table of Contents

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Abstract.....	ii
Table of Contents .....	iii
List of Illustrations.....	vii
List of Abbreviations .....	ix
Declaration.....	xi
Statement of Copyright.....	xi
Acknowledgements.....	xii

### **CHAPTER 1: Introduction to the Concept of Private Authority: Private Actors in the International System .....** - 13 -

1.1 Background .....	- 15 -
1.2 Context and Rationale for the Research.....	- 18 -
1.3 Research Questions, Aims and Objectives .....	- 20 -
1.4 Research Methods .....	- 21 -
1.4.1 Research Design.....	- 22 -
<i>Case Study Research</i> .....	- 23 -
1.4.2 Data Collection .....	- 25 -
<i>Archival Research</i> .....	- 26 -
<i>Interview and Questionnaire Research</i> .....	- 33 -
1.4.3 Data Analysis .....	- 35 -
1.4.4 Research Issues .....	- 37 -
<i>Access</i> .....	- 37 -
<i>Confidentiality</i> .....	- 39 -
1.5 Research Structure .....	- 39 -

### **CHAPTER 2: Private Authority in International Governance: Theories and Concepts.....** - 43 -

2.1 Emergence of Non-State Actors.....	- 45 -
2.2 Authority and Legitimate Power .....	- 46 -
2.2.1 Friedman's Conception of Authority .....	- 47 -
2.2.2 Sovereignty and Authority of the State .....	- 50 -

2.3 Authority in the International System .....	- 53 -
2.3.1 Non-State Actors .....	- 55 -
2.3.2 Private International Authority .....	- 56 -
2.4 Private Authority in International Affairs .....	- 57 -
2.4.1 Governance and International Institutions .....	- 58 -
2.4.2 Governance of the International Economy .....	- 61 -
2.4.3 Power in Private Authority.....	- 62 -
2.4.4 Private Authority Beyond the Realm of IPE.....	- 62 -
2.5 Private Authority in Global Governance.....	- 63 -
2.5.1 Forms of Private Authority .....	- 64 -
2.5.2 Market Authority – Private International Regime .....	- 65 -
2.5.3 Moral Authority – NGOs (Non Governmental Organizations) .....	- 67 -
2.5.4 Illicit Authority – Mercenaries and Mafias.....	- 69 -
2.5.5 Theoretical Framework – the Analysis of the Case Studies .....	- 71 -
2.6 Private Authority in the Oil Industry: the Case of Oil Concession Agreements .....	- 72 -
2.6.1 Case Studies – Oil Concession Agreements .....	- 72 -
2.6.2 Colonialism, Expertise and Political Geography .....	- 75 -
2.7 Conclusion .....	- 76 -

**CHAPTER 3: The Emergence of Private Authority in the Oil Industry: The Case of the 1933 Oil Concession Agreement in Saudi Arabia ..... - 79 -**

3.1 Placing Private Authority: Arguments by Cutler, Haufler, Porter, Biersteker and Hall.....	- 81 -
3.2 IPE and New Mode of Authority: Private Authority in the Oil Industry....	- 83 -
3.3 Oil Politics: Structure of the International Oil Industry and Authority within .....	- 87 -
3.4 The Bahrain Oil Concession: First Signs of Private Authority?.....	- 91 -
3.5 Authorization of a New Mode of Authority: How Private Authority is exercised.....	- 101 -
3.6 The Saudi Government, the Oil Company and the US Government: the Concession and Public/Private Cooperation .....	- 103 -
3.7 The Concession Agreement: National Welfare and Emerging forms of “Moral Authority” .....	- 109 -

3.8 Social Development Projects: Exercise of Private Authority .....	- 115 -
3.9 Conclusion .....	- 122 -
<b>CHAPTER 4: Private Authority through Public and Private Relations: the Oil Majors and the Iranian Oil Crisis, 1951 – 53 .....</b>	<b>- 125 -</b>
4.1 Oil Relations: Iran and the Oil Majors .....	- 127 -
4.2 The D’Arcy Concession: Market Authority through Public Involvement .....	- 130 -
4.3 Operational Companies: Governance and Control .....	- 135 -
4.4 Nationalization of the Iranian Oil Industry: Principle of National Sovereignty .....	- 139 -
4.5 Towards the Oil Agreement: Concessionary Interests.....	- 144 -
4.6 Community Programme: the Operation of Moral Authority .....	- 150 -
4.7 Functions, Rights and Powers: the Implementation of Epistemic Authority.....	- 156 -
4.8 Conclusion .....	- 159 -
<b>CHAPTER 5: Locating Private Authority in Kuwait Oil Industry: the BP/Gulf Oil Concession Agreement in Kuwait .....</b>	<b>- 162 -</b>
5.1 Kuwait’s Oil Possibilities: Interactions of Power .....	- 164 -
5.2 Balance of Authority: Oil Negotiations .....	- 172 -
5.3 Oil Concession Agreement of 1934: Process of Authority.....	- 178 -
5.4 Local Involvement: Business of Governance and Market Authority.....	- 182 -
5.5 Social Welfare and Moral Authority.....	- 193 -
5.6 Conclusion .....	- 198 -
<b>CHAPTER 6: Private Authority and Public Oil Ownership: the Case of the Oil Nationalization in Iraq.....</b>	<b>- 202 -</b>
6.1 Iraq: Making of State .....	- 203 -
6.2 Oil Development: Iraq’s Oil Industry .....	- 209 -
6.3 Control of Crude Oil: the Iraq Petroleum Company.....	- 215 -
6.4 Oil Domination: Market Authority .....	- 220 -
6.5 Nationalization: the Foundation of the Iraq National Oil Company.....	- 226 -
6.6 Public-Private Partnerships: Operation of Private Authority.....	- 230 -
6.7 Conclusion .....	- 235 -

<b>CHAPTER 7: Conclusions .....</b>	<b>- 239 -</b>
7.1 Theoretical Implications.....	- 240 -
7.2 Empirical Findings .....	- 244 -
7.2.1 Emergence of Private Authority.....	- 244 -
7.2.2 Operation of Private Authority.....	- 246 -
7.2.3 Private Authority through Public and Private Interactions .....	- 248 -
7.2.4 Significance of Private Authority.....	- 249 -
7.2.5 Private Authority and Corporate Social Responsibility (CSR).....	- 251 -
7.3 Reflections on the Research Process.....	- 254 -
7.4 Recommendations for Future Research .....	- 256 -
 <b>REFERENCES.....</b>	 <b>- 259 -</b>
 <b>Appendix 3.1: Statistical data of the crude oil production in Saudi Arabia (1938-1990).....</b>	 <b>- 277 -</b>
 <b>Appendix 5.1: Map of the State of Kuwait and Kuwait Oil Company's operations in 1970 .....</b>	 <b>- 278 -</b>

## List of Illustrations

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### List of Figures

Figure 1.1: Methods of data collection .....	- 26 -
Figure 1.2: Archival Research Undertaken.....	- 35 -
Figure 3.1: Telegram – EGS Requesting Permission from the British Government for Oil Development in Bahrain .....	- 98 -
Figure 3.2: Balance Sheet of the Eastern and General Syndicate, Limited, of London, dated the 19th of June, 1922 .....	- 99 -
Figure 3.3: His Excellency Shaikh ‘Abd Allah al-Sulayman, Saudi Finance Minister, and Mr. Lloyd N. Hamilton, Lawyer and Negotiator for Standard Oil of California (SOCAL), Sign the Concession Agreement, May 29, 1933, in Khuzam Palace in Jiddah .....	- 111 -
Figure 3.4: Letter from Ministry of Finance, the Saudi Arab Kingdom to the President, the Standard Oil Company of California dated August 27, 1933 .....	- 113 -
Figure 3.5: Aerial View of Dhahran in 1948 .....	- 118 -
Figure 3.6: The primary school at Hofuf .....	- 119 -
Figure 3.7: The elementary school at Madinat Abqaiq.....	- 119 -
Figure 3.8: Aerial view of the Health Centre at Dhahran .....	- 121 -
Figure 4.1: William Knox D’Arcy c.1901 .....	- 132 -
Figure 4.2: Pupils in one of Abadan’s Primary Schools .....	- 154 -
Figure 4.3: Students at Abadan Institute of Technology .....	- 155 -
Figure 5.1: Public/private interactions in Kuwait oil development .....	- 177 -
Figure 5.2: Aerial view of the Secondary School at Shuwaikh .....	- 183 -
Figure 5.3: Sheikh Ahmad al Sabah at the opening of the pipeline on 30th of June 1946.....	- 186 -
Figure 5.4: Crude oil production from 1946 to 1970 .....	- 188 -
Figure 5.5: Aerial view of the Southwell Hospital at Ahmadi.....	- 194 -
Figure 6.1: Conference of cooperation between the Iraq National Oil Company (INOC) and the Entreprise de Recherches et d’Activités Pétrolières (ERAP) ...	- 230 -
Figure 6.2: ERAP Surveying party .....	- 233 -

## List of Maps

Map 3.1: Saudi Arabia and Neighbouring Countries.....	- 94 -
Map 3.2: Tribes of Arabia in the Early Twentieth Century .....	- 95 -
Map 3.3: An Illustration of the Red Line agreement of 1928.....	- 106 -
Map 3.4: Dhahran .....	- 117 -
Map 4.1: Map of Middle East in 1932 .....	- 138 -
Map 4.2: The Iranian oil agreement area pre-1970.....	- 146 -
Map 4.3: Map of Iran and its various provinces in 1970 .....	- 147 -
Map 5.1: Kuwait .....	- 164 -
Map 5.2: Map of the State of Kuwait and Kuwait Oil Company's operations in 1961. .....	- 181 -
Map 6.1: The Ottoman Empire in the late nineteenth century.....	- 205 -
Map 6.2: Iraq in the Middle East .....	- 208 -
Map 6.3: Proposed Berlin to Baghdad Railway.....	- 210 -
Map 6.4: The Sykes-Picot Agreement of 1916.....	- 213 -
Map 6.5: Iraqi Oilfields in 1934.....	- 220 -

## List of Tables

Table 3.1: Amounts of crude oil produced and the royalty payment annually from 1939 to 1949.....	- 116 -
Table 5.1: Medical facilities established by the company between 1948-1960..	- 183 -

## List of Abbreviations

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AIOC	Anglo-Iranian Oil Company
APOC	Anglo-Persian Oil Company
ARAMCO	Arabian American Oil Company
BL	British Library
BMI	Business Monitor International
BOD	British Oil Development Limited
BP	British Petroleum
CASOC	California Arabian Standard Oil Company
CFP	Compagnie Française des Pétroles
CO	Colonial Office Records
CSR	Corporate Social Responsibility
EGS	Eastern and General Syndicate
ERAP	Entreprise de Recherches et d'Activités Pétrolières
FEC	First Exploration Company
FO	Foreign Office Records
Gulf	Gulf Oil Corporation
IMF	International Monetary Fund
INOC	Iraq National Oil Company
IO	India Office Records
IOs	International governmental organizations
IPC	Iraq Petroleum Company
IPE	International Political Economy
IR	International Relations
KISR	Kuwait Institute for Scientific Research
KOC	Kuwait Oil Company
MEDU	Middle East Documentation Unit
MNCs	Multinational corporations
MNEs	Multinational enterprises
NGOs	Non-governmental organizations
NIOC	National Iranian Oil Company
NSC	United States National Security Council

OPEC	Organization of the Petroleum Exporting Countries
ORCA	Ottoman Railway Company of Anatolia
PRO	Public Record Office
Shell	Royal Dutch Shell
SOCAL	Standard Oil of California
TCOs	Transnational criminal organizations
TNCs	Transnational corporations
TPC	Turkish Petroleum Company
UK	United Kingdom
US	United States
USSR	Union of Soviet Socialist Republics
WWI	First World War
WWII	Second World War

### **Declaration**

This thesis has been written by me, and the material has not been submitted for a degree at any University. The work reported has been done by myself, and all information cited is acknowledged at the appropriate point in the text.

### **Statement of Copyright**

The copyright of this thesis rests with the author. No quotation from it should be published without the prior written consent and information derived from it should be acknowledged.

## Acknowledgements

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I am grateful to a number of important archival and historical document offices scattered throughout the United Kingdom for providing historical materials necessary for most of the analysis in this thesis, without these institutions it would be impossible to carry out this research. Some of these institutions include the Middle East Documentation Unit (MEDU) at the University of Durham, the British Petroleum (BP) Archive at the University of Warwick, the Foreign Office Records and the Colonial Office Records at the Public Record Office (PRO) – the National Archive, and the India Office Records at the British Library Research Archive. I would like to thank the staff at each institution for their patience assistance and support during my visit. In particular, I would like to thank Bethan Thomas, BP Archivist, for her direction and advice on how to carry out archival research effectively.

I would like to pay a special appreciation to interviewees that I interviewed during the research, who I am much appreciated for taking the time out of their busy schedules and provide me with invaluable insight and knowledge concerning the key research questions.

I would like to express my deepest gratitude to my supervisors Dr. Louise Amoore and Dr. Marcus Power for their guidance and support throughout my PhD. I appreciate their hard work and enthusiasm in supervision meetings that must have been at times somewhat wearing in discussing ideas. I am also grateful for their constructive comments and productive feedbacks that has made me stay focused and on course to complete this thesis.

I owe a special thanks to all my friends, both at the department and in the Thai community, for their friendship and support during difficult period in this PhD. Finally, I would like to express my gratitude and appreciation to my family – Mum, Dad and little Brother – for their never-ending support and encouragement, without them, I would have had the most difficult time completing this PhD during what has been a most challenging, exciting, inspiring and demanding period of my life.

## **CHAPTER 1: Introduction to the Concept of Private Authority: Private Actors in the International System**

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*“One of the most significant changes in the multilateral system in recent years is increased private sector participation... [with] a substantial increase in both scale and impact of [private] interaction as new forms of cooperation” (Bull et al. 2004: 481).*

Historical evidence has highlighted the fact that non-state or private actors have existed in the international system much earlier than suspected. Playing a vital role in both national and international affairs, many have argued that they have emerged long before any “international organizations or other inter-state multilateral institutional arrangements” (Katsikas 2004: 1). This thesis engages with such arguments and suggests that public-private cooperation also emerged much earlier than many anticipated. Although this is the case, the traditional account of non-state or private actors by International Relations (IR) scholars has been somewhat insignificant with most keeping to the state-centric approach. As a result, this thesis further suggests that public-private relationship which took specific forms in the past has been majorly under highlighted and investigated. Today, due to the recent changes in political, economic and social climates, this view is however changing leading to further examinations of the role of non-state or private actors in historical context (Thomson 1995).

Over the last thirty years or so there has been overwhelming evidence suggesting that the conditions of global governance have been significantly altered by the economic and technological changes discussed under the term “globalization” (Sassen 2003). In the context of the thesis, this is particularly clear in the case of internationalization of markets and the emergence of transnational information and communication networks where the autonomy of national governments in defining and providing public goods has been challenged (Knill and Lehmkuhl 2002). This revelation has led to the presumption in the discipline of International Relations (IR) and International Political Economy (IPE) that the phenomenon of “globalization”

has effectively transformed the interstate system and state sovereignty resulting in political, economic and social changes which ultimately blurred the lines between public and private (Katsikas 2004). This has not only fatally undermined the state as the sole regulator of political, economic and social affairs – it also generates problems which can no longer be sufficiently resolved by the unilateral action of national governments. Thus, there is growing demand for rules and regulations beyond those of the state sovereignty (Haufler 1993).

As a concept that emerged around 1960 (Johnston 2000), according to James Mittelman (2000: 5), globalization represents “an increase in interconnections, or interdependence, a rise in transnational flows, and an intensification of processes such that the world is, in some respects, becoming a single place.” Thus, as markets become more globally integrated through the phenomenon of “globalization”, the increase in the number and activities of international non-governmental organization (NGOs) and other non-state actors have become more noticeable (Cutler 2003). This, coupled with the inability of national governments to resolve a number of political, economic and social issues, has led to many recent studies emphasizing the potential of non-state or private actors as contributors to the governance of the international system (Biersteker and Hall 2002). In this, these studies have suggested that these actors are the key to sufficient resources which would help compensate for the decreasing capacities of the national governments in defining and providing public goods, either individually or through cooperation. As a result, there has been a renewed interest in the nature of non-state or private actors and their influence in global political, economic and social spheres, encouraging many scholars to go beyond the traditional debate of *whether* non-state or private actors matter, shifting focus to a concern with *how* they matter (Buthe 2004).

While the traditional view in international relations studies has always treated the state as the primary entity with legitimate power and authority in the international affairs, the concept of private authority has somewhat been neglected by traditional IR scholars. For instance, traditional IR analysts and scholars often argue that political authority is mainly maintained and exercised by a single form identity, the state (Keohane 1984; Reus-Smit 1999; Waltz 1979; Wendt 1999). Consequently, IR analysts and scholars in the past often missed crucial ingredients that non-state or

private actors bring to the analysis of power and authority within the international system. This not only leads to misinterpretations of the nature of power and authority itself but it also leads to an incomplete understanding of issues that have major political, economic, and social consequences both at the national and international level. Thus, in-order to better understands the logic of power and authority in the international system and issues that come with it, it is vital for us to examine the role of non-state or private actors in detail.

One of the examples that provide a set of historical debates that allow us to examine the emergence of a set of practices of public/private authorization and decision is the case of the oil industry. In this, the case of oil industry not only highlights the developing patterns of public-private cooperation/relationship, it also underlines the growing importance in the role of non-state or private actors. Dating back to the mid-nineteenth century, multinational oil companies have always played influential roles in other areas beyond their industry and each of the country they dealt with and operated in – provoking political, economic and social debates both at the national and international level. Thus, considering the position and nature of these companies in relation to the state, the thesis sets out to examine their complex roles in the oil industry with particular attention to their practices and activities in various oil concession agreements over the period of early development in the oil industry from the late-nineteenth century to early twentieth century.

## **1.1 Background**

*“The international oil industry has long commanded public, political and academic attention” (Rees and Odell 1987: 1).*

*“Oil and politics have always been closely associated, which is not surprising given the size of the industry and of the firms in it, its economic and military importance...” (ibid.: 9).*

In historical context, the emergence and progress of the international relations and international political economy as a field of enquiry relies heavily on the political

and economic coordination of public and private actors. In this, the oil industry provides us with an important example of such coordination, mainly because of its nature which involves important interactions between public and private actors. As such interactions are vitally important to the emergence of the political and economic coordination that we take to represent the exercise of private authority here; the analysis of actors in the oil industry can help us to better understand various forms of private authority.

Since the early days of the oil industry, the world oil consumption and trade has grown rapidly from one country to another. As a result, oil is by far the largest single commodity in international trade making the oil industry one of the largest and most international of all industries in the world (Parra 2003: 1). Today, despite competition from gas and nuclear energy, oil has maintained its prominence largely due to the fact that oil is the only energy source that can be used across the board – as an industrial fuel supply and as a means to generate electricity, but most importantly it continues to be unrivalled in the transportation sector. It remains inexpensive and more readily and cheaply transported across long distances than any of its competitors (Morse 1999: 2).

Although it is clear that the international oil industry of today is radically different from what it was in the 1920s with the industry continuing to transform throughout its history, one fact remains constant throughout its ages. Ever since its birth, the oil industry has been a somewhat “exclusive club” with high barriers of entry and few major players occupying the scene, giving it a status as the most highly politicized industry in the world both during its heyday of resource nationalism and consumerism today. For instance, (a) the British and American government relied heavily on oil resources in their bid to expand and hold on to their imperialist powers during the period of post-World War II (see Section 4.1) and (b) the overall development of the oil-producing countries today majorly depend on the world oil industry which for the last few decades has been tremendously influenced by the level of oil consumptions (Marsh 2007).

Throughout its history, the oil industry has helped shape the political, economic and social policies and alignments of not only all the producing countries, but also the

imperialist powers. In this, the major oil companies have in turn promoted their own oil interests and ambitions which have allowed them substantial influence in various oil rich regions. These influences result in a process which has made some of these oil regions a centre of international tensions between public and private actors ever since, most noticeably – the Middle East region.

Looking back into the history of oil development in the Middle East, early interest in the Middle East oil came from the British. This interest is a direct result of the British involvement in the region that arose out of their “imperial connections with India and the Far East which demanded the establishment of coaling stations and of territorial enclaves to protect both them and route-ways such as the Suez Canal” (Odell 1968: 93). Despite the early British involvement, the oil development in the region was somewhat well behind other parts of the world. For instance, the discovery of oil in Persia in 1908 by the Anglo-Persian Oil Company (later became British Petroleum) and the work under the stimulus of participation by the British government, as part of the effort to control oil for the British Navy, was almost half a century behind other oil industries elsewhere in the world. As a result, the oil sector at the time had little effect on the traditional economies of the Middle East. Although this was very much the case, as things turned out, the event of the First World War was to dramatically change the role that the oil sector plays, transforming the life of the people in the region in major ways.

The First World War effectively divided the former Turkish Empire into British and French spheres of control. As far as oil was concerned, this had major consequences in the Middle East in that the two countries ended up with full control of the industry. While oil in Persia (later changed its name to Iran) remained wholly British, neighbouring Iraq required the participation of both British and French capital to create a consortium for oil exploration in the country. As history reveals, parts of the Middle East within the French spheres of control bare little oil possibilities which meant that they were very much limited to their shares of oil interests in Iraq. By contrast, the British continued to extend their influence in the region, taking their interests to various parts of Persian Gulf resulting in the discovery of major oil resources along the coast, particularly in Kuwait.

As the world oil market in the 1910s and 1920s was dominated by the American companies, such as Standard Oil Companies<sup>1</sup>, with major oil discoveries in the US, Mexico and Venezuela in the late nineteenth century (Ferrier and Fursenko 1989), they did not have much interest in oil in the Middle East. The development of the Middle East oil resources by the British however caught their attentions resulting in combined political and commercial efforts of Washington and of American companies to win access to the oil wealth of the region. Mainly through negotiations for entry into various existing oil concession agreements in the area, the American companies eventually gained prominent position in the Middle East oil industry. For instance, in Iraq, the consortium that mostly controlled by the British and French companies came to be dominated by a group of American companies, and in Kuwait, the oil interest in the country became equal between the British and American companies (Marsh 2007)<sup>2</sup>.

Through the history of oil development in the Middle East, one can view the early structure of the Middle East oil industry as existing wholly within colonial rules. Thus, any practices and activities within the industry of the region were subjected to the British and French control. Also, as oil wealth afforded economic power, the Americans were able to use their dominance in the world oil industry to force its way to become the third major power with great influences in the region.

## **1.2 Context and Rationale for the Research**

Public and private interactions in the oil industry illustrate many of the characteristics of change in world politics and foreign policy. It reflects the new salience of economic issues, the significance influence of non-governmental actors, and the changing role of international organizations. Since the very beginning, oil

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<sup>1</sup> As American integrated oil producing, transporting, refining and marketing company, Standard Oil was established in 1870. Found by John D. Rockefeller, the company was one of the first and largest multinational corporations before breaking up into 34 companies in 1911. Under Standard Oil trust, these companies played a major role in the development of the world oil industry in the early part of the twentieth century.

<sup>2</sup> Also see Peter R. Odell, 'The Significance of Oil', *Journal of Contemporary History*, 3/3 (1968), 93-110.

policies often catered to foreign interests of both major governments and multinational oil companies while domestic interests bore the consequences. Thus, the practices and activities by these few major players in the oil industry tend to hold great significance for the political, economic and social development of both producing and consuming countries.

As the thesis sets out to examine causes and consequences of political authority exercise by actors in the oil industry, the analysis of the actions of these actors as individuals and in relation to each other is vital. In investigating these actions, the research situates itself in a context that has become a feature of the globalizing world – the emergence of private authority in global governance and the erosion of the power of the state. Arguing that non-state or private actors are not only currently influencing the way national governments define and provide standards/regulations but also have been for a long period of times throughout the history of national and international marketization, the research focuses on examination of the concept of private authority in historical context. Despite the fact that oil industry illustrates rich interactions between public and private actors which allowed the emergence of private authority in historical context as noted, to examine the whole of the oil industry is simply far too complex and complicated. Thus, the thesis employs the use of case studies as the central feature of the analysis with the main focus on public/private power and authority that were exercised in the process of gaining and implementing various oil concession agreements within the Middle East region.

The significance of the oil concession agreement as the main focus of the empirical research has emerged from the debates which suggest that there have been substantial increases in the number and activities of non-state or private actors both at the national and international level in recent years. Due to the fact that this has not only drawn attention to the role of these actors but also their relations with the state actors, the four case studies of oil concession agreements in the Middle East region (Saudi Arabia, Iran, Kuwait and Iraq) offer three main contributions as following:

- First, the process of gaining and implementing oil concession agreements highlights public and private interactions in historical context that capture

practices and activities associating with the exercise of different forms of private authority.

- Second, each of the oil concession agreements itself is considered by many as the main feature in the development of the oil industry, hence the evolution of private actors in the national and international system which is important to the understanding of how private authority emerges, operates and develops.
- Third, the oil concession agreement in the Middle East is vital to the overall political, economic and social development of the region which is significant to the growth in the role of non-state or private actors.

On a theoretical level, the rationale for this study is to close the knowledge gap in the concept of public/private power and authority, especially on the question of where, when and under what conditions do private authority emerge. In this, I engage with the work of scholars such as Claire Cutler, Virginia Haufler, Tony Porter, Thomas Biersteker and Rodney Hall (Biersteker 1998; Biersteker and Hall 2002; Cutler 1999; Cutler et al. 1999; Cutler 2003; Hall 2005; Haufler 1993, 2004; Porter and Ronit 2006; Porter 2009). Drawing on key concepts including the understanding of the nature and influence of non-state or private actors in world politics, I seek to develop the work through a specific focus on public-private cooperation in the context of oil concession agreements.

### **1.3 Research Questions, Aims and Objectives**

Based on the discussion presented in this chapter so far, debates on the role of private authority in the international system provide the basis for examining the significance and implications of non-state or private actors. Through the analysis of their practices and activities in the oil industry of the past, a better understanding of the concept of private authority can be achieved. Thus, the principal aim of this research is to examine the phenomenon of private authority by focusing on the evolution of non-state actors such as non-governmental organizations (NGOs) and

multinational corporations (MNCs). This will include investigation of their roles and relationships with state actors – going beyond the earlier debate of *whether* non-state actors matter to *how* they matter. In this, the research critically discusses the implications of the emergence of private authority with the investigation firmly constructed around case studies of different oil concession agreements.

To achieve the central aim of the thesis, there are five main research questions which need to be answered both in contemporary and historical context:

1. In what ways do private actors become authorities in international affairs?
2. How does the emergence of private authority affect the distribution of power, authority and control of political actors both at the national and international level?
3. To what extent does private authority impact the relationship between state and non-state actors?
4. Does private authority in any way effect the political, economic and social development of the world?
5. In what ways does private authority influence the governance of important spheres of political, economic and social life?

#### **1.4 Research Methods**

In the process of answering the research questions stated in the last section, a number of methodological challenges and choices need to be examined. This examination must also lead to a clear research design and processes of data collection and evaluation. As the last few sections suggest, public/private power and authority both in the national and international system are somewhat complex and elusive concepts. Thus, a variety of methods were adopted – analysis of primary data such as reports,

documents, and archival materials; analysis of secondary data such as books, journals and newspapers; semi-structured interviews; and e-mailed questionnaires.

#### 1.4.1 Research Design

As the thesis examines causes and consequences of political authority exercise by actors in the oil industry with particular attention to their interactions, the analysis of the actions of these actors as individuals is done mainly in relation to each other. In this, the main focus here is on public/private interactions that lead to specific patterns of relationships which allow private authority to emerge. Engaging with the work of scholars such as Claire Cutler, Virginia Haufler, Tony Porter, Thomas Biersteker and Rodney Hall (Biersteker 1998; Biersteker and Hall 2002; Cutler 1999; Cutler et al. 1999; Cutler 2003; Hall 2005; Haufler 1993, 2004; Porter and Ronit 2006; Porter 2009), the exercise of such private authority depends very much on great influences that non-state or private actors have on the way in which national governments define and provide standards/regulations, both past and present. As a result, to gain sufficient understanding of how private authority emerges and operates – we need to identify empirical evidences that highlight specific forms of public/private relationship that allow private influences mentioned.

As noted, oil industry illustrates rich interactions between public and private actors which allowed the emergence of private authority, investigation of oil industry therefore should provide evidences confirming the conceptualization of private authority the thesis offers. In this, we expect to see empirical evidences in three areas linking the theoretical and empirical research. First, evidences that capture public/private interactions leading to specific patterns of relationships which in the case studies are interactions between individuals from the oil company and host government in the negotiation and implementation of various oil concessions. These set of evidences could come in the form of letter of correspondents, records of negotiations, agreement papers, etc. Second, evidences that highlight practices and activities of private actors that are ‘state-like’ which in the case studies involve the day-to-day operations of the oil company that affect political, economic and social development of the host country. These set of evidences could come in the form of

personal diaries, records of operations, administrative papers, etc. Third, evidences that illustrate private actors taking the roles of the state particularly in public responsibilities which in the case studies are roles that engage the setting and maintaining of policy relating to rules and regulations of various markets and industries in the country. These set of evidences could come in the form of political correspondents, memos, reports, etc.

Through evidences discussed above, sufficient link between the theoretical and the empirical research can be achieved, in particular, in the concept of public/private power and authority in the oil industry that the thesis offers. Thus, the thesis should be able to close the knowledge gap in the concept of public/private power and authority, especially on the question of where, when and under what conditions do private authority emerge.

### Case Study Research

Theoretically – due to the complexity in examining the concept of public/private power and authority in the oil industry as mentioned throughout this chapter, the thesis has chosen to adopt a case study approach. As Bill Gillham (2000: 1) states that a case study is often employed to “seek a range of different kinds of evidence... to answer specific research questions that may be fairly loose to begin with,” this is seen to be suitable for this kind of research. In practical terms, the research has only chosen to carry out in-depth analysis of a limited number of cases.

*“The case study method is an approach to studying a social phenomenon through a thorough analysis of an individual case... [this] may be a person, group, episode, process, community, society or any other unit of social life” (Kumar 1999: 99).*

*“Case studies are used when it is necessary to develop a detailed understanding of what is happening in complex circumstances” (Moore 2006: xiii).*

*“Using case studies for research purposes remains one of the most challenging of all social science endeavours... [it requires] case study investigators to cope with a technically distinctive situation [with] more variables sources of interest than data points” (Yin 2009: 2-3).*

The majority of studies of private authority in the international system have concentrated on the contemporary public/private relationship with a particular focus on the international market. The examination of public/private relationships in historical context is however rare, despite many suggesting that private authority might have emerged much earlier than thought.

Since the research aim is to examine the phenomenon of private authority by focusing on the evolution of non-state actors in relation to state actors, the case study needs to highlight public/private interaction and the exercise of private authority in historical context. In this, in each case study, the thesis focuses on various oil concession agreements during the period of significant oil development, with particular attention to the countries of the Middle East region. Thus, concentrating on the historical development of the relationship between public and private actors together with the way they exercised their power and authority, the thesis consists of four main case studies as following:

- The 1933 oil concession agreement in Saudi Arabia (Chapter 3)
- The oil majors and the Iranian oil crisis, 1951-53 (Chapter 4)
- The BP/Gulf oil concession in Kuwait (Chapter 5)
- The oil nationalization in Iraq (Chapter 6)

On an epistemological basis, there are three main common reasons why the four case studies listed above are particularly significant to the research:

- Firstly, the producing country involved in each of the case studies are among the top oil-producing nations in the world with their oil sector playing a major role in shaping its social, political and economic life.
- Secondly, beside their natural resources, these countries, by virtue of their population, their economic capacity, their military capabilities and their geographic location, play a major role in regional and international politics.
- Thirdly, each of the case studies provides us with a fruitful history of negotiations and implementations of oil concessions providing a great platform for the analysis of interactions between public and private authority.

#### 1.4.2 Data Collection

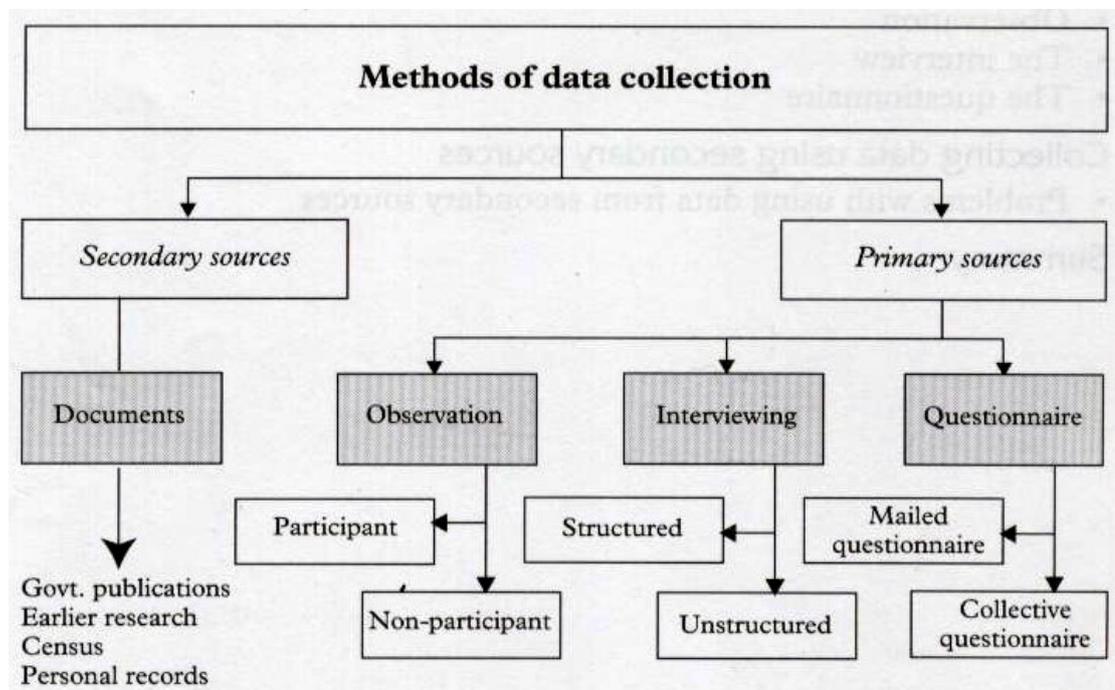
*“The broad strategy in case study research is to start by collecting data (and looking for it) with as open a mind as possible” (Gillham 2000: 18).*

*“The collection and capture of data is very often the most time consuming and expensive portion of your research... it is also one of the most difficult to make efficient and effective” (Greenfield 2002: 83).*

According to Ranjit Kumar (1999), there are two main approaches to gathering information about a situation, person, problem or phenomenon. One is to do with information which already exists and only needs to be extracted through different sources. The other is to do with information which needed to be collected through various data collection methods. In this, based on two such broad approaches, data can be categorised as secondary and primary data (see figure 1.1). While secondary data is said to be collected from secondary sources, the sources used to obtain primary data are called primary sources. Here, secondary sources include the collection of data from sources such as books, journals, articles, magazines, etc. and primary sources including people, communities, organizations, etc. To put it simply, primary sources provide fist-hand data and secondary sources provide second-hand data.

To gain information necessary for the analysis of the research, data collection must be used effectively as a part of “an integrated process which begins with the underlying research questions, is informed by an understanding of previous work, and is designed with specific analysis plans in mind” (Flowerdew and Martin 2005: 73). In this, the research concentrates on two approaches to collecting data, archival research as the main method and interview/questionnaires research as additional method.

*Figure 1.1: Methods of data collection*



Source: Ranjit Kumar (1999: 104)

### Archival Research

Archival research is the process of locating and examining historical records and documents which involves the use of archival and manuscript collections. According to Fredric Miller (1997: 55), archival and manuscript collections are “ the records created by organizations and individuals in the course of ongoing activities, and then saved in repositories because of their continuing value”.

*“Case study evidence can come from many sources...[such as] documentation, archival records, interviews, direct observation, participant-observation, and physical artefacts” (Yin 2009: 99).*

*“Social scientists who use archives enter a new world of information... extend the usual methods of finding and collecting data” (Hill 1993: 1).*

As outlined earlier in this section, the concept of public/private power and authority is somewhat complex, and the process of its emergence and development is complicated to say the least. For this very reason, the thesis predominantly uses qualitative methodological approaches in the process of information gathering and analysis. As will be explained in more detail in the next section (Section 1.4.3), this involves collecting and interpreting non-numerical materials such as personal letters, diaries and memoirs. These materials, for example, include (a) letter from Ministry of Finance, the Saudi Arab Kingdom to the President dated August 27, 1933, (b) letter from Mr. Spring-Rice to the Marquess of Lansdowne dated January 9, 1901, and (c) notes by Captain W. H. Shakespear for the use of the geologist deputed by the British government to visit Kuwait dated February 11, 1913.

In this thesis, there are two main parts of the analysis. First, the theoretical chapter (Chapter 2) that leads to the establishment of the research theoretical framework involving a thorough review of existing literatures on the concept of private authority in the international system. This covers the work of both leading IR and IPE scholars in the field of study investigating the emergence of private authority and its impact of the public/private relationship in the world politics. Second, the empirical chapters (Chapter 3, 4, 5 and 6) that lead to some answers to the research questions involving an in-depth investigation of the four case studies as already mentioned earlier in this section. This ranges from an examination of the roles and activities of both public and private actors to a study of their relationships in each of the case studies.

Since most of the information required in the analysis of this research is more specific than those available from secondary sources, the thesis looked to primary sources as a solution. In this, due to the historical nature of the analysis in the

research, the main method employed was document analysis from archival materials. To a lesser extent, as the research also aims to gain some contemporary perspectives to the analysis, semi-structured interviews and e-mailed questionnaires were also used. On the theoretical and practical level, the role of both public and private actors together with their practices and activities in various oil concession agreements cannot be directly observed because (a) the event took place in historical context and (b) the process involve is often complex. Thus, the thesis greatly relies on archival materials as the main evidence of the public/private interactions and the exercise of private authority in historical context. This is seen as appropriate because, according to Eugene Webb (1966), such materials are traces of past human activities – providing data useful to socio-historical research, hence suitable for this kind of research. Also, Jacob Bercovitch (2004: 418) argues that studying archival materials “is the most unobtrusive, non reactive way of getting information” which helps lessen any complexity in information gathering and interpreting of the research.

As “archival research methods include a broad range of activities applied to facilitate the investigation of documents and textual materials produced by and about organizations” (Ventresca and Mohr 2002: 805), it is highly suitable for this research which mostly involves the analysis of data related to oil companies in the case studies. For instance, the analysis in Chapter 3 mainly focuses on the examination of data relating to the 1933 oil concession agreement between the Saudi Arab government and the Standard Oil of California (SOCAL). In this, to Jacob Bercovitch (2004: 419), archival research holds a number of advantages over other ways of collecting and interpreting data:

- Archival research provides the best, perhaps the only, method of studying past occurrence.
- Archival research allows researchers to study contextual information in larger social scales.
- Archival research permits researchers to conduct research over a longer period.

- Archival research is quickly available and easily accessible, saving time, cost and personnel.

In the context of the thesis, the use of archival research demonstrates how historical materials can be used to explore the historical emergence of the relationship between public and private actors. For instance, (1) common documentary source such as diaries and correspondent letters can be used to better understand interactions between individual actors during the period of negotiation and implementation of various oil concessions agreements, (2) a greater depth of examination of each case study can be achieved by using photographs capturing practices and activities of various actors involved at the time, and (3) technical documents including maps and graphs can be used to gain a clearer perspective into the dealings of each oil concession agreement. As Hoggart et al. (2002: 120) assert that written documents/records “allow access to subjects that may be difficult/impossible to research through direct, personal contact, perhaps because they relate to the past or to a geographically distant place,” it is possible to say that the examination of archival materials is somewhat central to the overall analysis of the research.

According to Sotirios Sarantakos (2005: 294), there are at least three ways of gaining access to the source of archival materials – (a) informal channels such as personal contact and personal solicitation, (b) formal channels such as professional conference and libraries, and (c) secondary channels such as research registers and databases. As the analysis of the case study mainly concerns the roles, practices and activities of the individuals involved in the oil concession agreement, the evidence from the archival materials could be in a number of forms including official/unofficial documents such as letters, diaries, memoirs, reports, notes, correspondence and papers, unpublished manuscripts, photographs, scrapbooks, magazines, etc. In this, for the case study, the data and information to be gained from such historical materials are to be collected mainly from archival and document offices. As noted by Michael Hill (1993: 8), “the routes by which materials come to repose in archives are neither certain nor systematic,” hence, cautious and open-minded approach to archival research were adopted. This involves the understanding that there is a real possibility of archival collections do contain frustrating gaps in materials and that certain archival materials required may be “housed in several

different archives or distributed across a number of different collections in a single archive” (Hill 1993: 9). Thus, number of important archival and historical document offices scattered throughout the United Kingdom were under consideration for data collection purpose. The following are the four main offices that were extensively used in gathering data and information for the analysis in the research:

1. The Middle East Documentation Unit (MEDU) at the University of Durham – this historical document office holds a collection of documents on the economy, politics and society of the Middle East ranging from the late nineteenth century to early twentieth century. The collection largely “consists of government publications, statistical data sources, documents issued by political entities, non-governmental organizations and intergovernmental organizations from the Middle East” (Durham University 2009: 1). In term of its specific value to the thesis, this archive contains three areas of documents – vital to the analysis of the development of public-private authority – (a) annual reviews of multinational oil companies highlighting practices and activities relating to economic and social development, (b) governmental reports of host countries offering insightful information about their relationship with the oil companies, and (c) photographs capturing day-to-day operations of the oil companies and their involvement with local communities.
2. The British Petroleum (BP) Archive at the University of Warwick, Coventry – this archival office is the archive relating to BP Plc. (incorporated as Anglo-Persian Oil Co Ltd in 1909) and other several major jointly owned subsidiaries such as Kuwait Oil Co Ltd; Iraq Petroleum Co Ltd; and Shell-Mex & BP Ltd. The archive contains some of the most important contents reflecting “the shape of the company from its earliest days right up to the present” (BP 2009: 1). In term of its specific contribution to the analysis, this archive holds two areas of documents – crucial to the examination of the emerging pattern of public-private relationship in the thesis – (a) correspondent letters illustrating clear interactions between the oil companies and host countries and (b) oil concession agreement documents highlighting

public-private cooperation in the quest to develop the oil industry in the region.

3. The Foreign Office Records (FO) and the Colonial Office Records (CO) at the Public Record Office (PRO) situated in the National Archive in Kew, London – this archival office is the official archive of the UK government managing information of various government departments. The information mainly consists of government records including papers and reports both of the past and present (The National Archives 2009: 1). In term of its specific importance to the research, this archival office holds a number of documents – significant to the overall investigation of the case studies. This is particularly in the area of documents such as personal diaries, letter of correspondents and reports of British representatives involved in the negotiation and implementation of various oil concession agreements in the case studies where great insight into the thinking of each actor involved can be gained. Together with this, this archival office also collects numerous historical maps which are fundamental to the examination of oil concession agreements in each case study.
  
4. The India Office Records (IO) at the British Library Research Archive in St Pancras, London – this archival office holds massive collections of materials relating to the British in India, from the early eighteenth century to mid twentieth century. The archive also includes “source materials for neighbouring or connected areas at different times, covering not only South Asia, but also Southeast Asia, Central Asia, the Middle East, and parts of Africa” (British Library 2009: 1). In term of its specific significant to the study, this archival office contains large amount of documents – essential to the analysis of each case study. In this, the main contribution to the research is in the area of documents relating to diplomatic papers, letters, diaries and reports between the British government, oil companies and host countries where better understanding of the historical emergence of public-private cooperation/relationship can be achieved.

Above archive offices were selected through basic background research which involved the use of online databases of the national archives (National Archives 2010), general enquiries to each archive office and recommendations from archivist (BP, personal communication, 2008). The rationale behind the selection of archive offices as sources for the data used in the empirical analysis of this research comes in two folds: (1) suitability of each archive depending on availability of materials relating to the issue involve in the analysis, and (2) accessibility to each archive depending on travel and accommodation constraints relating to the funding of the research. Based on the aims and objectives, sources in each archive were identified by concentrating on evidences that reflect the main focus of the thesis which is public/private interactions that lead to the emergence of private authority.

Additionally, due to the fact that particular information needed in the analysis for each of the case studies cannot always be gathered from the archival and historical document offices mentioned above, the thesis turns to other sources. These sources are mainly oil-related institutions and establishments, namely, the Standard Oil of California and the Arabian American Oil Company; the Saudi Arabian Ministry of Petroleum & Mineral Resources; the Kuwait Oil Company Archive; the Kuwait Institution of Economic; Social Planning and Information Department of OPEC; Iraq National Oil Company and the Iraqi Ministry of Oil and Minerals. In term of its specific value to the research, these sources offer wide range of public relations and informational materials such as brochures, handbooks and magazines of the oil companies and ministries involved in the case studies. As part of the analysis heavily reliance on the ability to examine economic and social contributions of oil companies in the host countries, these materials provide invaluable information for the analysis of each case study in the thesis. In this, the information needed was mostly gathered through a direct contact to these institutions and establishments via telephone calls and e-mails requests asking for relevant documents for the analysis of the research. Other information was obtained through research on available internet databases provided by some of the institutions and establishments named.

### Interview and Questionnaire Research

*“One of the most important sources of case study information is the interview” (Yin 2009: 106).*

Apart from the method of documentation analysis from archival materials as the main part of the data collection method in the thesis, the research also employs semi-structured interviews and e-mailed questionnaires method. This is largely in an attempt to gain some contemporary perspectives to the analysis which add extra dimensions to the conclusions made in the thesis. According to Bill Gillham (2005: 70), the semi-structured interview is “the most important way of conducting a research interview because of its flexibility balanced by structure, and the quality of the data obtained”. Thus, the semi-structured interview is deemed appropriate for the analysis under discussions here.

The interview and questionnaire were designed to investigate contemporary perspectives on the issue revolving around the role that public and private actors play in relation to each other in the oil industry. In this, the questions cover a wide range of topics relating to the concept of private authority. The selection of interviewees was based on the need to gain a comprehensive view on public/private interactions that directly resulted from various oil concession agreements. This involves individuals from a number of public and private sectors including oil operational companies, oil construction companies, governmental institutions, etc.

As noted, all of the interviews are semi-structured. This implies that (1) a set of the same questions are used in each interview, (2) kind and form of questions go through the same process of development to ensure that they are topic focused, and (3) approximately equivalent interview time is allowed for each interviewee. Despite these elements of common structure, there are less structured elements in the interview. These are in the sense that questions are open – that is the direction or character of the answer is open – relating to views and opinions of interviewees. In this, questions in the e-mailed questionnaires are similar to those being asked in the interview. Some of these questions are listed below:

- Do you think your company has a responsibility to the societies in which the company operates and how does this manifest itself?
- What are your views on the relationships between the company and host government when it comes to social issues and how does this affect the operation?
- When facing with social issues, what roles do the company take and what are the roles of the community and host government?
- What is the company's position when it comes to the issues involving the setting of rules and regulations in the oil industry of the host country?

Following semi-structured interview method suggested by Bill Gillham (2005: 76), the researcher as conductor of the interviews went through five basic phases: (1) the preparation phase which included contacting interviewees, arranging time and place of interviews, and preparing questions, (2) the initial contact phase which ranged from basic introduction to discussing the background of the research, (3) the orientation phase which involved explaining the process of the interview and making sure that recording device is working properly, (4) the substantive phase which mainly related to asking questions as the central empirical focus for analysis, and (5) the closure phase which included a short review/summary of the interview and final check on anything that the researcher or interviewees could have left out or simply forgotten.

In conducting each interview or e-mail questionnaire, due to time constraints and difficulty in getting access to individuals involved in the industry, the "snowballing technique" was employed. This is a very simple, economical, efficient, effective and informal information gathering technique which involves a request of referrals made within a group of people who know each other (Browne 2005). In the context of this research, for instance, interviewees had recommended colleagues and other personnel that could be contacted for further information regarding the research.

Despite gaining substantial amount of knowledge from the interviews, due to secretive nature of the oil industry and companies involved, information given could not have been used in any substantial capacity to the empirical analysis. Instead, knowledge gained from the interviews allowed better understanding to the enquiry set-out in this study as a whole with particular contribution to conclusion of the thesis.

### 1.4.3 Data Analysis

Similar to data collection methods, data analysis methods have to consider the research questions, aims, and objectives. As previously discussed (Section 1.4.2), the main data collection method was archival research. All archival materials gathered from various archival and historical document offices and data collected from different oil-related institutions and establishment database, were either photocopied, scanned, photographed or downloaded. In this, the figure below shows brief details of the archival research undertaken:

*Figure 1.2: Archival Research Undertaken*

<b>Archival Offices</b>	<b>Archival Materials</b>	<b>Collection Methods</b>	<b>Example of Data Gathered</b>	<b>Amount of Data Gathered</b>
The Middle East Documentation Unit (MEDU)	Reports, Letters, Memoirs, Copies of Official Correspondence and Papers, Official Notes, Agreement papers, Brochures and Magazines.	Photocopied, Photographed and Noted summary	1957 Report of Operations to the Saudi Arab Government by the Arabian American Oil Company, etc.	230-250 Pages
The British Petroleum (BP) Archive	Reports, Letters, Diaries, Memoirs, Copies of Official Correspondence and Papers, and Maps.	Photocopied and Noted summary	File BP 54498. Anglo-Persian Oil Co Ltd - Confidential Letter Book, etc.	80-100 Pages

The Foreign Office Records at the Public Record Office (PRO)	Letters, Diaries, Memoirs, Copies of Official Correspondence and Papers, Unpublished Manuscripts, Photographs and Scrapbooks	Photocopied, Scanned, Photographed and Noted summary	File FO 371/7717. Telegram from Political Resident, Bushire to Political Agent, Kuwait, 13 May 1923, etc.	180-200 Pages
The Colonial Office Records at the Public Record Office (PRO)	Letters, Diaries, Memoirs, Copies of Official Correspondence and Papers, Unpublished Manuscripts, Photographs and Scrapbooks	Photocopied, Scanned, Photographed and Noted summary	Article 5: Commercial Agreement of 23 December 1934 between Ruler of Kuwait and the Kuwait Oil Company, etc.	80-100 Pages
The India Office Records at the British Library (BL)	Letters, Diaries, Memoirs, Copies of Official Correspondence and Papers, Photographs and Scrapbooks	Photocopied and Noted summary	File R/15/619. Letter from Duke of Devonshire to Political Resident, Bushire, 13 October 1923, etc.	300-350 Pages
Others	Reports, Memoirs, Copies of Official Correspondence and Papers, Official Notes, Agreement papers, Brochures and Magazines.	Downloaded and Noted summary	Telegram from Standard Oil Company of California representative, Francis B. Loomis to the Honourable Secretary of State, Washington, 1932, etc.	200+ Pages

According to Nick Moore (2006: 104), qualitative research is “concerned with information about things that are less easily understood by counting them”. In this, giving an example of how psychologists and others measure intelligence by IQ scores, Earl Babbie (2004: 26) asserts that every observation is qualitative at the outset, “whether it is our experience of someone’s intelligence, the location of a pointer on a measuring scale, or a check mark entered in a questionnaire”. So, since the data gained from the archival research was mainly in the form of texts such as letters, diaries, memoirs, reports, notes, correspondence and papers, unpublished

manuscripts, photographs, scrapbooks, brochures and magazines, qualitative analysis method is deemed more appropriate for this research. Here, the analysis in the thesis drew on the texts in two major ways. First, the text is searched for relevant materials which range from recorded descriptions of the practices and activities to detailed reports of the roles and positions of various actors involved in the case study of oil concession agreements. Second, the text is analysed for evidence relating to the public/private interactions that lead to the exercise of power and authority.

Despite the fact that the thesis mainly focuses on archival data with interview and questionnaire data only feature in a small part of the analysis in the conclusion, all interview recordings were fully transcribed and questionnaire answers were fully summarised. All 6 interviews were conducted over the telephone and 10 questionnaires received via e-mail.

#### 1.4.4 Research Issues

In preparing and conducting this research, there was a number of research issues arose which needed to be addressed or at least reflected upon. These research issues include challenges and problems of both data collection and analysis in terms of access and confidentiality.

#### Access

*“The reason archival access is so important is because archived materials are typically unique, irreplaceable, one-of-a-kind items that cannot be obtained elsewhere” (Hill 1993: 22).*

Although it was realized that historical perspectives from retired actors involved in the four case studies of oil concession agreements would be most advantageous to the research, the difficulty and impossibility of gaining access to such actors in some cases had forced the thesis to resort to archival research. Thus, the data collected for

the analysis in this research have been obtained mainly from archival research with only minimal contributions from interview and questionnaire research.

As the archival and historical document offices mentioned in Section 1.4.2 are freely-open to the public through a request and appointment system, the access to these institutions and establishments as the sources of information was easy and straightforward. The main issue with access to information however arose when faced with the structural characteristics of these archives which hugely differ from most libraries. This is in the fact that archival curators wield considerable power over the materials in their charge. Thus, physical access to archival repositories is restricted or often extremely tricky. In conducting the research, the permission to enter these archives was either prearranged or granted upon arrival. Documents were either requested before the visit or on the day of arrival through their database system or request form. This has meant that a lot of archival research relied on the archivist's "sense of order" which is how the archival materials are sorted and arranged for public use (Hill 1993: 18). Also, rules and regulations set by the archival and historical document office can make it much more difficult to obtain necessary information for the analysis. For instance, the India Office Records at the British Library (BL) and the British Petroleum (BP) Archive would only allow certain documents to be photocopied and carry strict rules prohibiting scanning and the taking of photographs. Thus, apart from a photocopying method, the researcher had to rely on a note-taking method as part of the process in collecting materials needed for the analysis.

On the other hand, the access to data from members of institutions and establishments discussed in Section 1.4.2 for interviews and questionnaires participation on the contemporary view of the oil industry was achieved through telephone and e-mail requests. Owing to a low response rate of reply mainly due to the nature of the oil industry which often tends to be quite secretive about their practices and activities, the research turned to Durham University Alumni Office for assistance. In this, the alumni office granted a space in its monthly newsletter which was used to advertise for participation in the research from Durham alumni who still or used to be associated with the work in the oil industry, the response improved significantly.

### Confidentiality

Since archival materials are not only unique but also mostly always non-circulating, the donors and sponsors of archival materials hold confidentiality rights over such materials. In certain cases, the donors or sponsors only permit materials to be used through approval and restrict the quotation, copying and publication of materials. Due to these confidentiality and restrictions, a thorough search of the archives in this research for materials required was much more problematic than anticipated. For instance, at the National Archive in Kew, London, all confidential files were only allowed out in a set of three at any one time with strict ban on photocopying and scanning. As a result, the researcher had to depend solely on note-taking as a data collection method for the confidential materials. Although this is the case, the archive was somewhat more lenient on less confidential files by allowing the taking of photographs. This was found to be tremendously useful for any additional information gathering.

Despite great responses from potential interviewees and questionnaire participants, reluctance to give out information due to company's confidentiality in the subject has meant that little was gained from carrying out interviews and questionnaire research. Although this is the case, some personal views and opinions recorded turned out to be useful for the conclusion to the research.

### **1.5 Research Structure**

This thesis is divided into seven chapters including one introduction chapter, one theoretical chapter, four case study chapters and one conclusion chapter. The following are descriptions of the content in each chapter.

*Chapter 2* "Private Authority in International Governance: Theories and Concepts" presents the conceptual framework to the thesis. The chapter examines the recent trend of cooperation among non-state/private actors that results in the creation and

implementation of issue-specific transnational norms and rules and the subsequent shift from public to private forms of governance and authority. In this, the chapter starts from the hypotheses outlined by Claire Cutler, Virginia Haufler and Tony Porter (1999) in “Private Authority in International Affairs,” then investigates “The Emergence of Private Authority in Global Governance” edited by Thomas Biersteker and Rodney Hall (2002), giving us broader views and approaches to private authority beyond the realm of international political economy. Here, the critical evaluation of the work of such scholars provides the research with a theoretical framework for analysis in the empirical chapters.

In the last few sections, the chapter looks toward the works of scholars who concentrate on political and economic aspects of oil industry, from which help to identify the private authority exercised by non-state actors in the oil industry. Finally, the chapter briefly introduces the four case studies and its significance to the research.

*Chapter 3* “The Emergence of Private Authority in the Oil Industry: The Case of the 1933 Oil Concession Agreement in Saudi Arabia” is the first of the four case study chapters. The chapter aims to examine the case study of the 1933 oil concession agreement between the Saudi government and the Standard Oil Company of California. Concentrating on how Private corporations exercise their power in relation to the state, the focus of the chapter is firmly on negotiations and implementations of the concession with particular attention towards the relationships between the two actors mentioned. In this, the chapter analyses archival materials such as documents, letters, correspondents and diaries of the company’s and government’s personnel to find any evidences of the emerging historical relationships between public and private identities.

The latter part of the chapter moves on to the investigation of other findings relating to the resources and expertise of the oil company. As the chapter argues that this is vital to the emergence of private authority, the analysis in this section heavily involves the company’s operations and its roles in the nation’s welfare development plans.

*Chapter 4* “Private Authority through Public and Private Relations: the Oil Majors and the Iranian Oil Crisis, 1951 – 53” explores the case study of the oil consortium agreement in the post-Iranian oil industry nationalization period of the early 1950s. The purpose of the chapter is to demonstrate that careful analysis of the role of both state and non-state actors can provide further insights into how different modes of private authority can emerge. In this, the analysis in the chapter focuses on the Oil Majors and their relationships with the state-actors (Iran, US and Britain) where the investigation heavily revolves around Iranian-British relations.

The chapter first carries out background analysis of events leading to the nationalization in the early 1950s, in particular the period of WWII which is seen as significant to the development of the country. Then, the chapter turns its attention to the period of their operations in Iran arguing that Iranian government’s “lack of skills, financial resources, and shipping facilities” is the ultimate cause that allow the oil company a powerful position in the political, economic and social development of the country.

*Chapter 5* “Locating Private Authority in Kuwait Oil Industry: the BP/Gulf Oil Concession Agreement in Kuwait” attempts to locate private authority by focusing on the interaction between the Anglo-Persian Oil Company (now the British Petroleum Company), the Gulf Oil Corporation of America and the Kuwait government during the 1934 oil concession agreement. As Kuwait at the time was under heavy influence from colonial powers, the chapter argues that the parent governments of the oil companies were heavily involved in the negotiation for the concession. In this, the chapter concentrates on two major powers – the British government on the side of Anglo-Persian Oil Company (APOC) which showed interests in the oil possibilities in the area in 1911, and the US government on the side of Gulf Oil Corporation which came into the negotiation in 1927 by taking over Eastern and General Syndicate Limited’s (EGS) interest in the Kuwait concession. Within this, the chapter also investigates the cooperation between oil companies as part of the analysis to prove theoretical findings.

Similar to the latter part of Chapter 3, the second part of the chapter discusses the role of resources and expertise in the process of gaining oil concession agreement.

Again, the discussion leads the chapter to present in-depth discussions of various social development projects in the country which revolve around the argument that the power and authority of state actors can be transferred to non-state actors.

*Chapter 6* “Private Authority and Public Oil Ownership: the Case of the Oil Nationalization in Iraq” is the final of the four case study chapters. The chapter builds on the analysis done in the past chapters again trying to identify different forms of private power and authority with the critical investigation of the oil concession in Iraqi oil industry. The chapter first examines the historical background of Iraq as a frontier outpost of the Ottoman Empire that was administered by the Turks from the middle of the Seventeenth Century before falling under British military control in the early Twentieth Century. In this, the chapter explores the impact and influence of colonial power in the negotiation and operation of the oil concession in the country.

Through the archival materials collected, the last few sections of the chapter analyse the interaction between the oil companies in their quest to gain the oil concession based on the argument made in chapter two that private actors’ co-operation is part of the process where private authority emerges. Finally, through the investigation of oil contractual agreements in the late 1960s, the chapter highlights the importance of public/private co-operation to the emergence and development of private authority as a whole.

*Chapter 7* “Conclusions” completes the thesis with the summary of the main theoretical and empirical findings. In this, the chapter critically reflects on the research process acknowledging issues encountered during planning and conducting research. In answering research questions, the chapter also presents in-depth discussion of the theoretical/practical implications of the research and examines the use of Corporate Social Responsibility (CSR) concept as tool to analyse non-state or private actors in contemporary political debates. Finally, the chapter makes suggestions for future research in the field.

## **CHAPTER 2: Private Authority in International Governance: Theories and Concepts**

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This chapter examines the 20<sup>th</sup> century trend of cooperation among non-state/private actors that result in the creation and implementation of issue-specific transnational norms and rules and the subsequent shift from public to private forms of governance and authority. Through this analysis, the chapter establishes a theoretical framework for the investigation of the exercise of public/private power and authority in the oil industry as part of the main analysis in the thesis. As this analysis mainly concerns the process of gaining and implementing oil concession agreements within the oil industry as case studies, the chapter also examines other theoretical challenges that play a vital role in the analysis of this particular area of the oil industry. The aim here is to ensure that the theoretical framework which is to be established from the investigation of the nature of private authority can be utilized efficiently in the analysis of each case study.

Over the past 30 years or so, we have seen the number and activities of international non-governmental organizations (NGOs) and other non-state actors increased, this has in turn renewed scholarly interest in the nature of influence of non-state actors in world politics. It then became increasingly obvious that there were a growing number of theoretical and empirical challenges to traditional conceptions on authority in the international system. This new found interest in the subject has made many scholars going beyond the earlier debate of whether non-state actors matter, shifting to how they matter. In order to establish theoretical framework which will be used to analyze the role of power and authority of these non-state actors in the oil industry, the chapter investigates the work of several scholars as highlighted in the following sections.

To begin the examination of the concept of private authority, the chapter first critically discusses analytical frameworks set by two different groups of scholars: Claire Cutler, Virginia Haufler and Tony Porter (Cutler 1999; Cutler et al. 1999; Cutler 2003; Haufler 1993, 2004; Porter and Ronit 2006; Porter 2009) and Thomas Biersteker and Rodney Hall (Biersteker 1998; Biersteker and Hall 2002; Hall 2005).

Both of which designed to better understand the emergence of the non-state governance systems and the conditions under which they may gain authority to create policy. In this, the chapter concentrates on two volumes focusing on private authority in international politics, namely, Cutler, Haufler and Porter's "Private authority in International Affairs" and Biersteker and Hall's "The Emergence of Private Authority in Global Governance". Here, the chapter argues that although Cutler and Biersteker seem to agree that relationships of authority can be examined empirically only in "recognizable issue domains," both made great contributions to the field in its own right. On the one hand, Cutler et al. share the interest in the causes and consequences of the attainment of legitimate power by private actors that directly or indirectly work for profit. On the other hand, Biersteker and Hall take broader approach and seek to provide a comparative examination of private authority beyond the realm of international political economy.

Throughout the examinations of the concept of private authority, the chapter also investigates other theoretical challenges that I would argue are vital to the analysis of the thesis as a whole. In this, these theoretical challenges are scoped by the nature of the main analysis of the empirical research which consists of four main case studies (Saudi Arabia, Iran, Kuwait and Iraq). As these case studies concentrate on the investigation of the oil concession agreements in the period (1900-1960) which saw heavy colonial influence highlighting the importance of resources and expertise in the development of the oil industry, it is important to understand public/private power and authority in relation to the discipline of political geography and the concept of colonialism and expertise. Thus, as part of the analysis in the thesis, the chapter also draws together three other works that have not previously been brought into the specific debates around political authority. These are: Joe Painter's "Politics, Geography & 'Political Geography': A Critical Perspective" (1995), John Allen's "Lost Geographies of Power" (2003) and Timothy Mitchell's "Rule of Experts: Egypt, Techno-Politics, Modernity" (2002). In this, the reason for selecting these works as part of the analysis is mainly because of their emphasis on the spatiality of political power and authority.

## **2.1 Emergence of Non-State Actors**

During the past few decades a consensus has emerged that the economic and technological changes discussed under the term “globalization” have significantly altered the conditions of international governance (Bisley 2007; Cable 1999; Hirst et al. 2009; Marsh and Hay 2001; Prakash and Hart 1999). One of the prime example of this is the case of the internationalization of markets and the emergence of transnational information and communication networks, which have challenged the autonomy of national governments in defining and providing public goods, a function classically associated with the nation-state (Knill and Lehmkuhl 2002: 282). According to Klaus Dodds (2005: 25), for some government leaders and political scientists, “globalization conjures up a world in which the interstate system and state sovereignty have been challenged, perhaps even fatally undermined, by the transboundary flows of people, ideas, commodities, finance, disease, drugs and even terror”. Thus, it is therefore not surprising to find that the phenomenon of globalization has led to a growing demand for regulation beyond the sovereignty of nation states.

Further, a dramatic increase in number of political, economic, and social changes have also blurred the line between the public and private dichotomy at both the national and international levels, in turn undermining the status of the state as the sole regulator of social and economic affairs (Katsikas 2004). In particular, economic and technological interdependencies have created a range of problems that exceed the scope of national sovereignty and can therefore no longer be sufficiently resolved by the unilateral action of national governments. Consequently, the emergence of globally integrated markets poses new challenges for the regulation of domestic problems where the increasing economic integration has meant that national governments are more pressurized to redesign national regulations in order to avoid regulatory burdens that restrict the competitiveness of domestic industries.

As the changing spatialities of globalization place new limits on the abilities of governments to address social and political issues seems to appear, recent studies emphasize potential governance contributions from non-state or private actors, which

might compensate for the decreasing capacities of national government in defining and providing public goods (Arts et al. 2001; Higgott et al. 2000; Josselin and Wallace 2001; Peters and Koechlin 2009). For this reason, it is hardly a surprise to find that in the last few decades we have seen private governance contributions or private authority emerged from a diverse array of private actors, such as business associations or multinational companies.

Despite the fact that transnational non-state actors clearly exist in international system, playing an important role in international affairs alongside international organizations and other inter-state multilateral institutional arrangement, analysts and scholars of international relations studies have traditionally treated them as insignificant actors. Based on a narrow view of what constitutes sovereignty and the state in international relations studies, in the international system for the power and legitimacy of both states and non-state actors, there is an assumption of clear separation between a public and private sphere in law and regulation. As a result, international relations scholars have always treated the state as the primary entity with the necessary legitimacy and power to determine the procedure and content of institutional arrangements in international affairs.

By ignoring the role that corporations and non-governmental organizations plays in international systems and concentrates only on the decisions of state-policy makers, international relations analysts and scholars have missed the important contributions of non-state actors to the creation and maintenance of regime, including its rules and regulations (Haufler 1993: 94). As such contributions usually applied to many sectors in the community, this can have huge consequence socially, politically and economically as a whole. Thus, I would argue that realizing the role of non-state actors, particularly in relation to state actors, could be the key in grasping the logic of power and authority, both in the hands of public and private entities.

## **2.2 Authority and Legitimate Power**

The notion of “power and authority” in international governance is somewhat problematic as the location of legitimate “power and authority” is neither obvious

nor self-evident. For this reason, it is therefore important to better understand the nature of power and authority in the global political economy before theoretical framework can be established. Drawing on the work of R. B. Friedman (1990) on the concept of authority in political philosophy, this section examines the nature of legitimate authority and identifies main problems in locating such authority.

### 2.2.1 Friedman's Conception of Authority

*"The concept of authority is one of the rare ideas that has remained stubbornly central both to political philosophy and to empirical social science in spite of their divergence in the twentieth century" (Friedman 1990: 56).*

Friedman began to look at the concept of authority in his chapter: "On the concept of authority in political philosophy," by stating the Oxford English Dictionary's meaning of "authority" as not only the "right of command" and "power to influence action," but also "power over the opinions of others," "intellectual influence," "power to inspire believe," and "title to be believed" (ibid.: 57). From this, he argued that although a man who exercises authority does indeed influence other men, this influence may be over beliefs as well as conduct. Friedman also observed and agreed by many political philosophers that "authority" is both an elusive and an indispensable concept (Cutler 1999)<sup>3</sup>, linked to central issues of political philosophy and the social sciences as stated in his writing:

*"...for social science, the heavy intellectual burden placed on the notion of authority may be seen in the preeminent role played by the concepts of legitimacy and legitimate power in the study and definition of such "subjects" as the stability of political systems, the transition from traditional to modern society, organizational behavior, political socialization, etc. At the same time, the "meaning" of authority has been the subject of ceaseless and acrimonious controversy in both political philosophy and social science. The controversy is invariable cast in the form of a*

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<sup>3</sup> Also see Claire Cutler, Virginia Haufler, and Tony Porter, *Private Authority and International Affairs* (Albany: State University of New York Press, 1999).

*dispute over the relation between the notions of authority, power, and legitimacy; and a large variety of approaches to authority have been forged out of these elements” (Friedman 1990: 56).*

Through her writings “Locating Authority”, Cutler explains that despite the fact that thinking about the concept of authority reflects no single view; Friedman was able to isolate its main elements. The two significant elements given by him are the public nature of authority and its identity as a social construction (Cutler 1999: 62). For public nature of authority, it entails “the surrender of individual judgment” where individual who accepts authority is said to surrender his/her private judgment (Friedman 1990: 68). For social construct nature of authority, it requires public designation, recognition and acceptance of authority where authority can have application within “the context of socially accepted criteria” (ibid.: 71). Through the connection of authority and the central role it plays in political philosophy, Friedman argues that it is possible to distinguish two very different approaches to the way in which the concept of authority has entered into the attempt to conceive the unity of a human society (Cutler 1999).

The first approach as expressed in his work concentrates on the nature and role of authoritative beliefs, arguing that society cannot exist without the general consensus of authoritative beliefs concerning the meaning of human life (Friedman 1990). Friedman believes that without common belief, in particular one that held on the principle of authority based on trust without discussion, no society can exist. In this, political institutions are said to have “authority” or “legitimacy” only when the members of society consider such institutions to be reflecting, embodying or promoting their shared beliefs. One of the interesting observation here is that although these authoritative beliefs are constitutive of the social order, “the weakening or dissolution of [these] beliefs is bound to generate destructive acts directed against the values and practices of the established social order and even ultimately against the self, for example, suicide, madness” (ibid.: 58). As a result, it is often this particular version of the approach to authority, in the context of shared beliefs as mentioned, that scholars claim that the notion of authority has been lost or distorted in contemporary debates of the subject (Raz 1990).

The second approach that Friedman argued, in contrast, concentrates on the authoritative regulation of conduct by state where its central argument is that social life is somewhat impossible without the authority of the state (Friedman 1990). In this, due to the fact that men are “individuals” with different values and desires in life, it is therefore impossible to maintain social order among such individuals if each individual were to demand that government should reflect his/her “values and desire” as a condition of acknowledging the duty of obedience to government. Thus, political authority is needed in the society where all men “must submit to common rules, regardless of their own private opinions as the worth of those rules: the authority necessary to the existence of society is conceived in terms of common beliefs, but in terms of a common framework of rules of conduct, within which the individuals can then pursue their own ends” (ibid.: 58). Hence, it can then be argued that the authority required for social cohesion is ultimately realized through the investigation of the absence or loss of shared beliefs, acting as a kind of compensation for such absence or loss (ibid.)<sup>4</sup>.

Originally derived from the Weberian concept of the state as having “monopoly on the legitimate use of violence” (Weber 1946: 78), Friedman’s approach to the notions of “authority” and “legitimacy” has made a huge influence to the contemporary approach to the concept of authority. As a result, the dominant approach to authority in contemporary social science has been to construe authority in terms of the notion of “legitimacy” and accordingly, to define authority as “power that is legitimized”. In this, the modern social science has been particularly concerned itself with the maintenance of cohesion, not simply by force but by the sense of “legitimacy” attached to power and authority. This has in turn led to a major development of the view of authority as “legitimate power”. Thus, it can therefore be said that “the principal analytical problem is to clarify the relationship between political authority and coercion” (Cassinelli 1961: 637).

In the study of political authority, when examining the conception of authority, I would argue that it is greatly important to also examine the study of sovereignty of

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<sup>4</sup> For more discussions on the public recognition of authority see Bruce Lincoln, *Authority: Construction and Corrosion* (Chicago ; London: University of Chicago Press, 1991).

the state as it can be said that sovereignty is bedrock of institutional of authority (Raz 1990). Therefore, it is impossible to investigate one without looking at the other and vice-versa. In this, the next section briefly discusses the conception of sovereignty from international relations perspectives.

### 2.2.2 Sovereignty and Authority of the State

*“Sovereignty is a notion which, perhaps more than any other, has come to dominate our understanding of national and international life. Its history parallels the evolution of the modern state. More particularly, it reflects the evolving relationship between state and civil society between political authority and community... despite loose talk about the way it is acquired, lost or eroded, sovereignty is not a fact. Rather it is a concept or a claim about the way political power is or should be exercised” (Camilleri and Falk 1992: 11).*

The international relations literature regularly embraces sovereignty as the primary constitutive rule of international organization. Theoretical traditions that agree on little else all also seem to concur that the defining feature of the modern international system is “the division of the world into sovereign states” (Barkin and Cronin 1994: 108). Despite differences over the role of the state in international affairs, most would agree that sovereign state is a state having “supreme power or authority” within a territory (Oxford English Dictionary 2010: 1). For instance, John Ruggie has defined sovereignty as “the institutionalization of public authority within mutually exclusive jurisdictional domains, [territory or boundary]” (Ruggie 1986: 131).

In the context of the thesis, the key word in the definition of sovereignty here is “domain” which I imply to highlight a sense of national territory or boundary where it reflects many scholars’ argument, particularly those in the field of political geography, that “a claim of sovereignty is a claim to being the highest authority within a [territory], or over a particular group” (Painter 1995: 41). Thus, it has been widely argued that one of the most important roles the state plays is that of an agent of boundary constitution and maintenance, in which sovereignty operates as a claim

to authority and responsibility for political choice within these boundaries. These boundaries, for the past two centuries, have been understood to coincide with the territorial borders of the state, within which it contained a political community that is the source and object of the state's sovereignty. Through this view, the state's essential role is that of establishing boundaries around those activities and persons over which it claims authority. According to Joe Painter (1995: 40), in political geography perspectives, this role involves states claiming to have "the right to require residents of their territories to behave in certain ways and to refrain from certain activities, that is, to receive compliance". With this point, it can therefore be argued that the significance of the current trend in changes in the world economic and politics under the term "globalization" is that it is working to disengage the boundaries of the state's authority from its territorial borders, and/or changing the way in which these boundaries are governed. Additionally, the form of sovereignty, traditionally exercised by the state, normally defined and controlled the territories and boundaries, is also changing where the change here, I would argue, is in the form of traditional public/state entity transforming to a more fluid form of entity such as social groups, regimes, civil societies, etc.

As the current global system is less and less tied to geography, less and less reliant upon any particular physical-territorial location in which to carry out its activities, the states' ability to control economic activity is decreasing. Consequently, the states are losing its relevance as either facilitators or obstacles to the function of the global economy, which make it even more difficult for them to control their borders in all aspects. Thus, I would argue that the state are somewhat destined to recede into some sort of oblivion as the global economic system comes to dominate the evolution of society around the world, a situation which the late Susan Strange (1996) labelled as "the retreat of the state" (Cohen 2001: 77). So although throughout the history, the sovereign state has been the dominant form of political organization in the world, in the past few decades, it has been common to read popular and scholarly accounts of the "death of the state" as we know it (Strange 1996).

Moreover, alongside international relations scholars such as John Ruggie (1986), in the 1970s and early 1980s, liberal independence theorists such as Richard Cooper (1972); Robert Keohane and Joseph Nye (1972, 1977); Edward Morse (1976); and

Richard Rosecrance (1986) also challenged the state-centric approach to world politics. Their critique of the state-centric paradigm implied that state sovereignty was being eroded by economic interdependence, global scale technologies, improvement, and dramatic international politics (Thomson 1995: 216). In this, they also argued that the state can no longer control their borders. Modern technology empowers non-state actors to evade state efforts to control the flow of goods, people, money, and information across territorial boundaries – capital, especially, can easily flow to another state escaping state fiscal and monetary policies, which results in economic and military vulnerability. All of which again suggest that the traditional form of state sovereignty is, to certain extent, eroding and being replaced with a new form of sovereignty which is increasingly influenced by the movement of non-state entity. Although this is the case, it is important however to recognize that these liberal interdependence theorists did not claim that the state-centric approach to world politics’ assumption of sovereignty is wrong per se, but rather, they argued that the assumption in theorizing world politics was more appropriate in the past and less appropriate for the twentieth century world politics.

Through arguments made by number of scholars from diverse perspectives, it can be argued that a shift from state-based forms of sovereignty to some other form of global political organization has become evident. Thus, based on the idea that the “rules of sovereignty” are defined as a set of principles by which the international community recognizes the legitimacy of authoritative control over a specified population and territory, I would argue that this shift would entail a number of consequences. In connection with public/private exercise of power and authority, these consequences include the loss of states’ exclusive authority to recognize sovereignty; the end of state monopoly on legitimate coercion; the deterritorialization of states’ authority; and most importantly the transfer of meta-political authority to non-state actors or institutions. These consequences, particularly the latter, will be further investigated in later section of this chapter.

In term of the conceptualization of private authority in this thesis, authority under discussion here is distinctively different from those associated with state in that it relates directly to practices and activities through various roles that private actors take when interact with state. These are not just normal practices and activities but

one which have direct consequences to the progression of political, economic and social system in the country involved. In this, in the context of the oil industry as an area of study in this thesis, the setting and maintaining of rules and regulations offer one of the clearest examples.

In contrast to power and sovereignty hold by state, private authority to be examined in this thesis is neither absolute nor supreme and does not go uncontested. Consequently, it requires trust and consent rather than coercion. Although similar to state authority in that it can be identified as “power to influence action” or “power over the opinions of others” (Friedman 1990: 57), due to the fact that it is difficult to pin-point exactly which practices and activities through public/private interactions can be classified as an act of private authority, there are some limitations and weaknesses of the account of private authority in this thesis. This range from the problem of identifying which actors truly ‘private’ to identifying which practices and activities truly affect the progression of political, economic and social system in the country involved. Thus, the empirical analysis (Chapter 3, 4, 5 and 6) in this thesis aims to address these issues by first identify private actors then seek evidences that capture their practices and activities which significantly influence the way host governments govern their country.

### **2.3 Authority in the International System**

Traditionally, the concept of authority in the international system has derived from Weberian conceptions of the state and the domain of international politics. Considered as one of the fathers of modern sociology, Max Weber (1947) offered a more social dimension to the term. As noted in Section 2.2.1 earlier, Weber famously defined authority as the legitimate exercise of power. In this, he explains that “authority is a social commodity that cannot be usurped or successfully claimed unilaterally... it must be publicly claimed and publicly acknowledge by the subjects of the exercise of power” (Hall 2005: 66).

On the question of the state, Weber asserted that the essence of the state is its ability to claim the monopoly of the legitimate use of physical force over its citizens within

a given territory (Weber and Parsons 1964: 156). According to Biersteker and Hall (2002: 3), through this claim to legitimate authority, most states “can rely on the habitual obedience of their citizens by establishing legal codes in which the threat of physical coercion is only implicit”. For this very reason, many see states as both the source, and the exclusive location, of legitimate, public authority. So, not only have states been asserted to be the principal actors in the international arena, but they also considered to be the only legitimate actors in international relations. Although this may often be the case, we still struggle to identify the main actor with legitimate authority in the international arena. With this problem, most traditional accounts of international politics have seen each states act in their own interest and sometimes employ force to achieve their objectives. As a result, many therefore argue that there is an absent of such legitimate authority in the international arena which one could rely upon, one may say that there is an absent of “global state” (Milner 1991). Thus, this absence of a so called “global state” has led many observers to deny the very existence of authority or legitimate power operating within the international arena (Biersteker and Hall 2002).

Despite arguments against the existence of power and authority in the international scene as discussed above, in the time where the phenomenon many labelled as “globalization” is at the heart of international studies debate, we have seen the numbers and activities of international non-governmental organizations (NGOs) and other non-state actors grown rapidly, especially in the 1990s. This has led to many suggesting that there are possibilities that these actors may be able to fill this gap and at the same time create new entity with new role of power and authority in the international realm. With this view, the next few sections will discuss the role of non-state actors in the international arena and also argue that these non-state actors are becoming increasingly active in many activities and practices which associated with the exercise of power and authority. The key part of this argument here is that patterns of public-private authority from such activities and practices can be seen over a longer period than many scholars assumed.

### 2.3.1 Non-State Actors

At both national and international level, non-state actors are considered to be any actor that is not a state, including general public opinion groups, multinational corporations, non-governmental organizations (NGOs), international governmental organizations (IOs), formal/informal transnational networks of government bureaucrats, international professional associations and commercial lobbying groups, as well as international criminal and terrorist networks (Buthe 2004). These often collective actors are “socially constructed, interact with other non-state actors as well as governments, operate for profit or provide public goods” which in turn results in their position undermining or supporting the state system (ibid.: 282).

Since the Second World War, statistics have shown that the number and activities of these non-state actors have increased from under 3,000 in 1945 to over 13,000 by 1990; some of these are formally organized, while others are informal associations (Haufler 1993: 105). These associations are in various forms, they include both organizations which promote moral or religious values, such as an Amnesty International or the Catholic Church, and international business and political associations, such as the International Chamber of commerce or Greenpeace (ibid.: 106). So, it is hardly a surprise to find that the number and activities of international non-governmental organizations (NGOs) and other non-state actors continue to increase throughout the 1990s. This in turn has renewed scholarly interest in the nature and influence of non-state actors in world politics resulting in a growing number of theoretical and empirical challenges to these traditional conceptions on authority in the international system. In this, the interesting aspect that has arisen from this new found interest in the subject is in the fact that it has made scholars going beyond the earlier debate of *whether* non-state actors matter, shifting to *how* they matter. This is particularly in the area involving the question of the historical significance and contribution of these actors to the evolution of public-private power and authority.

Alongside an investigation of how these actors operate, in term of the discussion of public/private regimes and state/non-state actors, I would argue that a further degree

of study on how NGOs and other non-state actors organize their activities and cooperate with one another, and the impact of the increased incidence of transnational and transregional coalitions and alliances of these actors on global issues is also needed. For example, it is important to recognize that further essential role in international governance played by non-governmental organizations (NGOs) recently and a consequence of neoliberal marketization has meant the services once provided by public intergovernmental organizations are now contracted to private, non-governmental, often social movement style organization. Therefore today, it is quite normal to see NGOs run “the refugee camps, provide disaster relief, design and carry out development projects, monitor and attempt to contain the international spread of disease, and try to clean up an ever more polluted environment” (Murphy 2000: 795). Moreover, the interesting aspect here is that most of them do so primarily with public funds donated by various governments and intergovernmental organizations that have been taken by the efficiency of NGOs in providing these necessary international public services (ibid.).

As we witness the ever changing form of NGOs and other non-state actors for the last few decades or so, we can observe that whether there will be a shift of power and authority from the state to these non-state entities or not, non-state actors are now becoming increasingly essential players in the establishment and maintenance of public services and state projects.

### 2.3.2 Private International Authority

In the era of globalization, through the new debate of the role played by non-state actors in the international arena, it became increasingly obvious that the number of theoretical and empirical challenges writings to the traditional conceptions about authority in the international system also increases. Although these new found interests in the subject have resulted in more writings and research, we tend to find that the very notion of non-state actors remains conceptually problematic.

The literature on “private international authority,” attempting to address the problem of understanding the nature of non-state actors, was originally introduced into the

international relations debate by Virginia Haufler (1993), who suggested in the early nineties that the study of international regimes should also include “private international regimes”. Until then, and influenced by the dominance of realist and liberal interdependence paradigms, the regimes literature had been more or less state-centric, assuming that states were the main, if not the only relevant participants in international regimes. By directing the attention to the existence of “private regimes” and to the phenomenon of “private authority”, I would argue that Haufler’s pioneering work can be a useful tool for categorising the relationship and the division of labour between public and private actors in governance beyond the state (Wolf 2001: 7).

Following her earlier works on private regimes and private authority, Haufler cooperates with Claire Cutler and Tony Porter to publish a collection of essays on the subject of “Private Authority and International Affairs” providing further ground work for the development of the concept of “private international authority”. In the volume, they seek for analytical framework designed to better understand non-state governance systems by focusing more narrowly on private authority in international politics, where private is defined as “neither states, state-based, nor state-created” and authority is defined as “institutionalized forms or expression of power” that are legitimate in the sense that “there is some form of normative, un-coerced consent or recognition of authority on the part of the regulated or governed” (Buthe 2004: 282).

#### **2.4 Private Authority in International Affairs**

In the quest to better understand the nature and influence of non-state actors in world politics, Cutler, Haufler and Porter begin from the observation of the movement of the private sector. In this, they explain that there is large and growing realm in which “the framework of governance for international economic transactions is increasingly created and maintained by the private sector and not by the state or interstate organizations” (Cutler et al. 1999: 3). With this initial observation, the authors explicitly aim for both a positive and a normative analysis of such private authority, raising a series of questions for each:

*“Can private authority be reconciled, theoretically, with the state-centric approaches that dominate the discipline of international relations? How does private authority affect the distribution of power and wealth among all actors in international affairs? What is the impact of private international authority in the relationship within states between governments and societies? Does private authority weaken or enhance democratic institutions and processes? At the global level, does private authority affect the participation of states and other non-state actors in development of global norms and institutions? Does the level of development of a state affect its ability to influence private regulatory norms and arrangements?” (ibid.: 17).*

In addressing the above questions, Cutler et al. suggested that it is vital for scholars to address difficult empirical, theoretical and normative problems that are still unclear. As for the concept of “private authority” itself, Cutler et al. expressed that it is not easily derived from most theorizing about political authority. They explained that this is largely because political theorists tend to define the concept in ways that automatically imply the instrumentality of a state or government. In other words, the state-centric approach to the understanding of authority is now obsolete. Thus, to define private authority in a way that does not only account state as an essential actor fundamental to the term, Cutler et al. explained that we must move away from associating activities that are public and authoritative with the state and “differentiate between government and governance” (ibid.: 18). With this view, they began their examination of the concept of “private authority” by focusing on authority within international institutions.

#### 2.4.1 Governance and International Institutions

Cutler et al. start their theoretical exploration into the nature of private authority questioning the reason for its emergence in international affairs with a review of the literature on the creation of institutions. According to Tim Buthe (2004), considering the creation and emergence of private authority as a case for the creation or emergence of governance institutions is in itself fruitful. This is because it reminds us that both “the demand and supply of institutions” must be analyzed and explained

(Buthe 2004: 283). This is in the sense that providing and maintaining governance institutions requires resources together with cooperation in the form of compliance requiring a certain amount of “surrendering of individual judgment,” “an acceptance of its dictates based not on the merits of any particular pronouncement but on a belief in the rightness of the authority itself” (Cutler et al. 1999: 334). Considering this view, it is possible to argue that institutions can also play a role in reconciling individual and collective rationality (Soltan 1998).

As Virginia Haufler (1993: 94) argues, “the activities of private organizations can be similar to the activities of state in establishing the contours of an international [institution]”. The institutional structures therefore have an important impact on the capacity of public and private actors to governance. In this, Cutler et al. explain that the basic factor affecting the governance capacity of national governments is the structural potential for regulatory adjustments that aim at coping with the new problem constellations. For instance, even when there is similarity between the problem structures and national regulatory structures, economic and technological challenges may imply that public goods can no longer be provided if we were to rely upon the existing regulatory arrangements. As a result, fundamental regulatory at the national level might need to be adjusted. This can lead to the increase in the governance capacity of national governments, depending on the structural potential of such adjustments. In this context, Cutler et al. note that the reform capacity may vary from country to country and from policy to policy.

Knill and Leckhuhl (2002: 48) agree with Cutler et al. by stating that the most important institutional factors affecting the governance capacity of private actors is “the organizational structures and the institutional characteristics of relevant decision-making arenas”. They go on to say that with respect to organizational properties, the level of private governance capacity is expected to increase with both the strength and the degree of organization of private actors. In term of organization strength, they believe it defines the extent to which organizations are able to “influence, monitor and sanction the behaviour of their members,” that is, “the extent to which the organizations have sufficient autonomy to make decisions on behalf of their members” and are capable of ensuring members’ compliance with these decisions (ibid.: 48).

From the work of Cutler et al., it can be said that the degree of organization refers to the extent to which private actors are organized or willing to contribute to the provision of public goods by private organizations. In this, the degree of organization may have important repercussions for the resources of the actors involves, including financial, personnel, and technological capacities, as well as scientific expertise. I would argue that examples of effective private governance would reveal that private actors have more appropriate resources for developing corresponding solutions than do bureaucracies, particularly with respect to complex technological problems.

As firms are increasingly able to coordinate production on a global scale, creating much more complex relations and networks, I agree with Cutler et al. in saying that firms are now more capable of providing and maintaining resources for public demand, sometimes even more so than the state itself. Therefore, one of the key dimensions for the emergence of private authority from the creation of international institutions, I would argue, is the individual institution's ability to meet public demand for goods and services. This ability and position in the society in turn gained them public support and recognition which places them in a great position when dealing with the state in any public project. As to be discussed in the case study chapters (Chapter 3, 4, 5 and 6), this would not only allow them to initiate the public-private cooperation process but also build public-private relationship that would eventually gain them different forms of power and authority or as a term we often use in this thesis "private authority", in different areas.

In relation to the analysis of the case studies, it is the nature of private institutions under discussion here that illustrate the importance of resources and expertise in the way in which power and authority is gained and exercised. In this, the latter section of the chapter will show how examination of Timothy Mitchell's volume "Rule of Expert: Egypt, Techno-Politics, Modernity" can help better understand the concept of the politics and expertise in a postcolonial context, a vital ingredient for the analysis of the case studies.

## 2.4.2 Governance of the International Economy

In the international economic issue domains, steering in the same direction as many scholars' writings on the subject of the globalization, Cutler et al. (1999: 3) point out that there is growing realm in which “the framework of governance for international economic transactions increasingly is created and maintained by the private sector, and not by the state or interstate organization”. According to Tony Porter (2009: 3), “policy and regulatory processes [are also increasingly] captured and manipulated by the private sector actors”. In this, Claire Cutler asserts that private authority is provided predominantly through various forms of inter-firm cooperation (Cutler 2002). These forms of inter-firm cooperation, as noted by Tim Buthe, have incentive to “provide governance if they can reap the benefits from the resulting gains in efficiency or market dominance” (Buthe 2004: 283).

Following the work of Robert Keohane<sup>5</sup>, Cutler et al. examine various cooperation among firms and defined cooperation as requiring active adjustment of behaviour to reach mutual goals. In this, they also highlighted the sense of obligation “that extends cooperation into the future and gives it the mantle of authority” (Keohane 1993: 23). Cutler et al. continues to explain that the evidence of cooperation is in the adjustment process normally witnessed in the negotiation of agreements and treaties between different firms and the establishment of formal organizations.

With collective benefits to be gained, both economically and politically, from cooperating with each other, international firms are now more and more likely to surrender their own judgement and accept the mutual judgement. So, through mutual goals and market advantage to be gained, it is easy to see why firms are now looking to cooperation among each other resulting in different form of “private international authority” as suggested by Cutler et al.

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<sup>5</sup> Robert O. Keohane (born 1941) is an American academic and international theorist. Keohane helps develop the neoliberal strand of international relations. He is currently a Professor of International Affairs at the Woodrow Wilson School at Princeton University.

### 2.4.3 Power in Private Authority

In thinking about power in relation to private authority, Cutler, Haufler and Porter argue that two distinct roles played by power in private authority can be distinguished. The first is the role of power that makes it possible for private authority to be established in the first place. In this role, Cutler et al. argue that “the adaptation of a particular institutional arrangement may have much more to do with the power of its architects than its merits on efficiency grounds” (Cutler et al. 1999: 345). The second is the role of power produced by private authority once it is established. All in all, they see that “actors with powers would create private authority, and private authority creates power” (ibid.: 345). In this, it is the expectation of the power derived from private authority under discussion here that drive actors to build the institutions needed to produce it. In the context of the thesis, the significance of the two roles of power is that they lead to public-private interaction that is so vital to the emergence of public-private authority.

In their conclusion, Cutler et al. focus on the key lessons learned about private international authority. From their investigations, they concluded that “firms do not act as atomistic competitive units, driven solely by an economic imperative to maximize individual profits,” on the contrary, “firms singly and jointly, construct a rich variety of institutional arrangements that structure their behaviour” (ibid.: 333). Thus, it can be said that in aiming to gain power that could be derived from private authority, private actors cooperate with each other to establish institutions with arrangements that allow them such authority. In this, Cutler et al. believe that through these arrangements it is possible for non-state actors to deploy a form of “private authority” with major effects and importance not only to the understanding of firms’ behaviour, but also to the analysis of the state and its policies (ibid.).

### 2.4.4 Private Authority Beyond the Realm of IPE

While Cutler, Haufler and Porter’s *Private Authority in International Affairs* shows a great interest in the causes and consequences of the attainment of legitimate power by private actors who directly or indirectly work for profit, such as firms, business

lobbies, industry associations and other corporate actors, Biersteker and Hall's *The Emergence of Private Authority in Global Governance* takes a broader approach in examining the concept of private authority. Although not strictly speaking a sequel to the earlier works done by Cutler et al., Biersteker and Hall's recent volume is an excellent follow-on with a difference in that they seek to provide a comparative examination of "private authority beyond the realm of international political economy" (Buthe 2004: 282).

Thus, in the attempt to establish a theoretical framework which will allow us to investigate the public/private exercise of power and authority in the oil industry, particularly in the case of oil concession agreements, building on the knowledge gained from the examination of the work done by Cutler, Haufler and Porter, the next few sections investigate the work of Biersteker and Hall.

## **2.5 Private Authority in Global Governance**

Taken a broader approach and seek to provide a better understanding of non-state actors in the international realm, Biersteker and Hall's volume presents fruitful arguments and detail examination on the subject. It is clear that Biersteker and Hall start out from the influential work of the late Susan Strange (1996) on "the retreat of the state," or, as they describe it, "the devolution of authority and sovereign prerogatives of public authority to private actors operating in the international economy" (van der Veen et al. 2004: 593). Although this may be the case, their volume goes beyond the work of Strange offering new dimensions that help widen and strengthen the concept of private authority.

Apart from Susan Strange, Biersteker and Hall have also taken great influence from Claire Cutler, Virginia Haufler and Tony Porter's "Private Authority and International Affairs," where significant work on private authority has already been done as presented in the earlier sections (see Section 2.4.1 – 2.4.4).

### 2.5.1 Forms of Private Authority

As Biersteker and Hall discovered that the boundaries of public authority are being challenged by at least three major forms of emerging private authority (Hall 2005), their volume “The Emergence of Private Authority in Global Governance” therefore organized around the exploration of three different types of authority: market, moral and illicit authority. In this, they began with a review of the most significant work up to date on private authority. In their volume, Claire Cutler summarizes the most significant findings of her collaborative work with Haufler and Porter, and provides an essay that extends their works beyond the realm of international political economy. With this, she encourages Biersteker and Hall to explore the subject by breaking from the traditional approaches to international relations and to explore “the salience of private subnational and transnational socioeconomic forces” (Biersteker and Hall 2002: 9).

With Biersteker and Hall’s typology of authority approach, they begin by arguing that common to all three types of authority is that each involves consent which may be based on or a product of persuasion, trust or apathy, rather than coercion. They explain that “the consent to authority is socially constructed through a variety of different political and theoretical practices, ranging from behavioural consent to routines, norms, and public declarations of recognition” (ibid.: 6). Base on the examination of the volume, it can be seen that “apathy” plays a role in all three types of authority and “persuasion” appears to be particularly important to the rise of market authority. For instance, the case studies on the internationalization of goods, technology and finance suggest that the way in which private actors gain governance functions such as financial regulation and standards setting very much depend on states becoming convinced that such delegation would lead to better efficiency. Alongside this, “trust” in private actors in term of their expertise and ability to apply it in the interest of the public interest appear to be vital to the process that lead to the emergence of authority (Buthe 2004: 283).

### 2.5.2 Market Authority – Private International Regime

For Biersteker and Hall (2002), market authority of private actors stems from two dominant sources: “institutional market authority” and “normative market authority”. “Institutional market authority” regards “the capacity to successfully establish manufacturing, productive, regulatory, and reporting standards that become recognized by others” and that are subsequently supported and obeyed to by others (Hall 2005: 68). “Normative market authority” regards “the increasing acceptance by people, particularly in advanced industries countries, of market based decision-making over politically based decision-making, often both on efficiency and normative grounds” (ibid.: 68).

To investigate the nature of market authority, Biersteker and Hall introduce Stephen Kobrin, Louis Pauly and Saskia Sassen in their volume, in this, the three authors made great contributions by providing detail examinations into the nature of market authority, each in their own ways.

In Stephen Krobin (1997), the volume cite his earlier work emphasizing on his arguments that globalization has replaced vertically integrated hierarchical firms functioning within national economies with “a global, postmodern, networked mode of organization where the very concept of geographically based economies may not be relevant” (Biersteker and Hall 2002: 9). Stephen Kobrin, in his chapter “Economic governance in an electronically networked global economy” conceptualizes sovereignty as capacity of the state to exercise their authority over its own affairs in its own territory (Kobrin 2002). Here, he argues that the “external sovereignty” of state actors has been diminished as a result of “the fusion of markets in high-tech industries brought on by prohibitive research and development costs” (Biersteker and Hall 2002: 10). Thus, he claims that states only forced to allow private authority to arise when come up against a harsh choice of whether to benefit from the efficiency gains that accompany the emergence of private authority or retain their sovereignty at “the cost of economic and technological marginalization” (Buthe 2004: 283).

To put it simply, the emerging authority of private institution actors in technology and finance leaves states with a choice to cooperate and surrender their sovereign authority, or face with the possibility of losing out on economic and technological benefits (Kobrin 2002). To Krobin, as this new form of internationalization of economic and technological activity become inevitable leading to new institutional structure in the international arena, the reversal of internationalization of authority would become more costly and eventually impossible.

In his collaborative work with Paul Doremus, William Keller and Simon Reich (1999), Pauly argues that in term of the activities of multinational firms in technology and capital sectors, a firm nationality still matters. Multinational firms still very much operate systematically along national lines and states continue to influence firms and shape the operating environment in which they flourish while retaining “the political authority to steer their activities” (Doremus et al. 1999: 4). So, on the subject of global finance, Louis Pauly, in his chapter “Global finance, political authority, and the problem of legitimation” points to the continuing role that states play in the international capitalism structure. According to his earlier work, although states remain capable of “influencing the movement of capital across their borders... the possibility of actually controlling such movements at acceptable political cost” is very much reduced (Pauly 1997: 3).

Asking whether globalization is radically diminished state power, Pauly directs our attention to the sources of neoliberal globalization arguing that we are in the midst of an American liberal expansion. Here, he discusses the resistance to such project highlighting the fact that while “the logic of markets suggest globalism... the logic of politics remains deeply marked by distinctly national identities” (Pauly 2002: 78). For Pauly, the interesting aspect of this is not in the fact that this project of market globalism are effecting national fiscal, monetary, and macroeconomic policies but in the fact that there is “wide spread perception that all states, all societies, and all social group are now... affected” (Biersteker and Hall 2002: 10). In this, Pauly finds that market often take the blame for any negative out comes in domestic society. As a result, he suggests that states are knowingly involved in the birth and growth of private authority in international finance, not least because it allows the state actor to off-load their responsibility during bad times. Although this is the case, Pauly insists

that in the end, it is still national governments that are responsible for any crises in the financial markets. This ultimately means that if they fail to use their authority to stabilize the markets, they would not remain long in power. Consequently, they could lose their authority to private actors as Pauly asserts that for the common good of the market, “there is no reason why [authority] cannot be delegated... to the private sector” (Pauly 2002: 87).

Setting out to investigate the way in which the state participate in the global economy, Saskia Sassen, in her chapter “The state and globalization” argues that globalization has tremendous affected citizenship for the average person in that it devalued individual both in terms of their social and political benefits of citizenship (Sassen 2002). According to her earlier work, this is mainly because the institution and construction of citizenship are being destabilized (Sassen 1996). Looking at the global economy in with the view increasingly dominated by deregulation, privatization, and growing authority of non-state actors, Sassen suggests new analytical methods to help better investigate the relationship between globalization and state sovereignty (Sassen 2002). She argues that globalization actually materializes partly in national territory by giving an example of the central banks pointing out the fact that these banks continued to be “located within national state structure but are required to further the development of the global economic system” (van der Veen et al. 2004: 594). From this, she then develops a description of the international globalizing system that consist an entire set of governance mechanisms, as a result opens the door to new analytical methods for studying relationship between globalization and state sovereignty (Sassen 2002, 2003).

### 2.5.3 Moral Authority – NGOs (Non Governmental Organizations)

As Biersteker and Hall (2002) explain, moral authority can be found in three subdivisions, in the forms of international authority exercised by private actors. First is what called the authority of “authorship”, which is the capacity to provide expertise. Second is what they refer to as the authority of the “referee”, where non-state actors such as NGOs engage in “eco-labelling” and certify that products were produced in environmental friendly or sustainable fashion, by virtue of their claim to

be neutral or non-self-interested actors. Third form of moral authority is the authority of “normative” involving the claim of the actor to represent a socially progressive or perhaps a morally transcendent position. While there are many NGOs with special expertise in different fields exercising the authority of authorship, NGOs with global ethical, ecological, and humanistic missions, such as Amnesty international, Greenpeace, or Doctors Without Borders are such organizations exercising a combination of normative moral authority and the authority of the referee (Hall 2005: 69).

On the subject of moral authority, part three of this volume comprise of two chapters, one co-written by Ronnie lipschutz and Cathleen Fogel and the other by Mark Juergensmeyer. Both chapters provide us with insightful perspectives into moral authority within global civil society and transnational religious movements.

Ronnie Lipschutz and Cathleen Fogel, in their chapter on “Global civil society and the privatization of transnational regulation” investigate private actors, with particular attention to environmentalist non-governmental organizations (NGOs), in their attempts to establish and maintain standards and regulations at the international level. With growing evidence to suggest that NGOs are indeed serving as private authorities in the emerging privatization of international regulations (Lipschutz and Rowe 2005), Lipschutz and Fogel provide an example of how private organizations serve as source of “eco-labelling” certification and establish standards of “sustainable forestry” recognized by firms (Biersteker and Hall 2002: 14). As a result of this development, growing number of non-profit groups are using their moral authority to appeal to consumers, attempting to influence them to demand products that comply to environmental standards (Lipschutz 2002). Although this can be effective, Lipschutz and Fogel suggest that the most effective method still lies in the transnational or multinational regulation.

Through these observations, Lipschutz and Fogel (2002) suggest three different ways in which private authority is exercised by NGOs. The first is authority of “agenda-setter” that deals with minority lobbying activities of NGOs with popular support and genuine popular legitimacy. The second is authority exercised by NGOs through “virtue of their authorship or expertise” in the case where NGOs offer and provide

expert advice to the states as part of their effort to influence policy preferences. The third is authority exercised by NGOs involving “their emancipatory and normatively progressive social agendas, or their ostensible objectivity or neutrality as non-state actors” (Biersteker and Hall 2002: 14).

Starting his chapter “The global dimensions of religious terrorism” with the suggestion that America’s most wanted enemy in the last ten years was “Osama bin Laden”, a symbol of a variety of movements of religious terrorism, Mark Juergensmeyer provides an analysis of private authority in the sense of legitimate power that key to the practices and activities of the religious movements. In this, he investigates “the resurgence of private violence in the form of terrorism, particularly the private violence of transnational religious networks” (Biersteker and Hall 2002: 15). Base on interviews that he conducted with violent religious activist and their supporters, he points out that there has been a steady increase of religiously motivated terrorism in “virtually every part of the world, and in association with every major religious tradition” (Juergensmeyer 2002: 142). Although these religious motivated terrorism acts are local, he explains in his earlier work that it would be impossible for non-state actors to carry them out without the support of their transnational networks (Juergensmeyer 1998). Thus, for Juergensmeyer, there are sufficient evidences to suggest that some of the transnational religious networks do employ terrorist violence as public demonstrations of non-state [private] power.

#### 2.5.4 Illicit Authority – Mercenaries and Mafias

According to Biersteker and Hall (2002), illicit authority is authority that is exercised by mercenaries, mafias and transnational criminal organizations (TCOs) worldwide. In weak states, private armed forces and TCOs provide under-provided goods, like security from guerrilla violence in Sierra Leone, to public services of all kinds from Medellin, Columbia to former Soviet Central Asia. Through their abilities to provide means of violence where government do not enjoy a public monopoly of the use of force, such as providing transnational corporations (TNCs) with military capabilities, they pose a direct challenge to a system of sovereign states in the security realm.

By exploring the nature of private authority associated with forms of organized violence, the two chapters by Phil Williams, Bernedette Muthien and Ian Taylor in the volume made huge contributions in understanding private authority in global governance. In this, they refer to the form of private authority exercised by mafias and mercenaries as “illicit” authority because the activities of these groups violate both national and international legal norms. Although this may be the case, it is normal to see these groups enjoy a legitimate social recognition which tend to help them step into a power space left by a weak state and provide public goods that the state fail to provide.

Regarding the most important characteristics of global politics as the multiplicity of actors, Phil Williams, in his chapter “Transnational organized crime” examines challenges that private actors such as transnational criminal organizations (TCOs) both nationally and internationally pose to state actors. In this, he explains that these challenges are particularly obvious when it comes to the case of “weak states”, as he writes “the rise of transnational organized crime was inextricably connected with the weakness of many states in the international system” (Williams 2002: 169-70). On this point, he gives an example of Colombia suggesting that its lack of control over territory was a major factor that leads to it being considered as “the corporate headquarters of the South American cocaine industry” (ibid.: 170). Alongside this, Williams also emphasizes the fact that many functions traditionally perform by the state is now being executed instead by domestic organized criminal associations (Biersteker and Hall 2002: 17). Here, he gives an example in the case of Russia pointing out the ability of Russian mafia to take over some of the tax collections and control corruption that affects the provision of social services and administration of the rule of law in the country. The inability of states, such as Russia and Colombia, Williams argues, would have huge implication toward international order.

The chapter “The return of the dogs of war? The privatization of security in Africa” by Bernedette Muthien and Ian Taylor offers an in-depth analysis of the emergence of corporate mercenaries and private policing. In this, they suggests that following the end of the Cold War there has been “disturbing increase in the [re-emergence] of private armies in Africa” (Muthien and Taylor 2002: 185). As a result, authority relations in security sector in Africa are shifting resulting in the “decline of state

control over the means of violence” (Biersteker and Hall 2002: 17). Through the increase of privatization of security in Africa, they explain that more and more private actors are able to gain private authority allowing them to legitimize their use of physical force. As Muthien and Taylor suggest that “the privatization of security in Africa is perhaps the most extreme manifestation of a global trend turning toward sources of private authority” (Muthien and Taylor 2002: 195), they point out that the privatization of authority under discussion therefore has great implications for a number of states within Africa. In the wider global context of the privatization of authority, such developments result in fruitful debates for the traditional conception of state sovereignty.

#### 2.5.5 Theoretical Framework – the Analysis of the Case Studies

Through engaging with the work of scholars such as Claire Cutler, Virginia Haufler, Tony Porter, Thomas Biersteker and Rodney Hall, we have made a useful beginning in exploring the phenomenon of private authority and its importance for the understanding of contemporary international system. In this, I would argue that a provisional typology of three forms of private authority that are being exercised in the contemporary international system (market, moral and illicit authority), as suggested by Biersteker and Hall, can provide us some useful directions in future theoretical and empirical research.

In terms of the empirical research of the thesis, the next few sections of this chapter illustrate how the typology approach to the understanding of private authority proposed by Biersteker and Hall can be used as a platform that will help to establish a solid framework which will be used to analyze various forms of power and authority exercised by actors, both public and private, involved in the oil industry. In establishing the framework, the influential work of Cutler, Haufler and Porter will also be used alongside.

Despite the fact that adopting Biersteker and Hall’s three levels of authority as the main scope with a degree of openness to Cutler et al.’s perspectives on the issue of relationship between public and private governance/power/authority should allow us

to establish a strong enough theoretical framework for the analysis, other theoretical challenges will also need to be investigated. In this, these theoretical challenges will be discussed in better depth in the last few sections of this chapter.

## **2.6 Private Authority in the Oil Industry: the Case of Oil Concession Agreements**

Again, through a provisional typology of three forms of private authority, namely, market, moral and illicit authority, presented by Biersteker and Hall, the research aims to identify which of these three forms can be best describe private power and authority exercise by actors involving in the oil industry. In this, although other actors in other forms will also be discussed throughout different chapters in the thesis, the three main groups of actors that will be central in the analysis are the producing governments, consuming governments and multinational oil companies. In this, the empirical chapters therefore concentrate on the practices, activities and role of these actors through different oil concession agreements.

### 2.6.1 Case Studies – Oil Concession Agreements

As many scholars agree, oil illustrates many of the characteristics of change in contemporary world politics and foreign policy. It reflects the new salience of economic issues, the significant influence of nongovernmental actors, and the changing role of international organizations. Since the post-World War II period, oil policies often catered to foreign interests of both governments and multinational oil companies with domestic interest bore the consequences.

From the investigation of studies on the emergence of private authority in global governance and the erosion of the power of the state presented in this first chapter, the next few chapters concentrate more on the research investigation of the relationship between public/private power and authority in term of their role in oil industries. In this, to investigate the whole of the oil industry is simply far too complex and complicated. As a result, I employ the use of case study as the central

feature of the analysis in this thesis with the focus firmly on public/private power and authority that were exercised during the period of significant development in the oil industry. The word “significant”, here, I take it to mean the development that have huge consequences on not only the structure of the oil industry but also the economic, political and social life of the host countries. Thus, in each case study, I choose to concentrate on various oil concession agreements during the period of significant oil development, with particular attention to the countries of the Middle East region.

The reason for concentrating on various oil concession agreements in the Middle Eastern countries is due to three main factors. Firstly, the process of gaining oil concession agreement provides us with a great opportunity for the investigation of public and private interactions. Secondly, the oil concession agreement is considered to be the main feature of any development in the oil industry. Thirdly, the oil concession agreement in the Middle Eastern countries is seen as vital to the establishment of the oil industry which is crucial to the overall welfare development affecting economic, political and social life of the people in the Middle East region as a whole. Therefore, taking into account of factors discussed above, for the case studies of oil concession agreement in this thesis, the next four chapters present analysis and discussions of the negotiation and implementation of oil concession agreements in the period between 1900 and 1960 in four countries of the Middle East region. Making up all of the empirical chapters of the thesis, these four case study countries are Saudi Arabia, Iran, Kuwait and Iraq, respectively.

The first case study chapter starts by examining the 1933 oil concession agreement with the main focus on the interaction between the Saudi Arab government and the Standard Oil of California (SOCAL), today’s Chevron. Here, the chapter explores the activities and practices of the oil companies in the process of gaining and implementing the oil concession. The second case study chapter follows the first chapter with investigations of the oil consortium agreement of the post-Iranian oil industry nationalization of the early 1950s. In this, the chapter focuses on the Oil Majors and their relationships with the state-actors (British and American) that were holding influential position in Iran at the time. Then, the third case study chapter continues the analysis into the nature of public/private power and authority through

the discussions of the Kuwaiti oil industry. Concentrating on the interaction between the Anglo-Persian Oil Company (now the British Petroleum Company), the Gulf Oil Corporation of America and the Kuwait government, the analysis in this chapter investigates the role of each actors in the process of gaining and implementing the 1934 oil concession agreement. Finally, the fourth case study chapter attempts to identify different forms of private power and authority through the analysis of the Iraq oil industry. The main objective in this chapter is to demonstrate how the analysis of the role of public and private actors in the past oil concession agreement can help us better understand the nature of various modes of private authority. Again, similar to the other case study chapters, an emphasis will be placed on relations between the oil companies and the governments involved during the negotiation and implementation of oil concession agreements.

There are three main reasons why the four case studies stated above are particularly significant to the analysis of the thesis. Firstly, among the oil producers in the world, the countries in each of the four case studies (Saudi Arabia, Iran, Kuwait and Iraq) have consistently been important to the international oil market ever since the beginning providing each individual domestic market with a long and fruitful oil history. Secondly, due to the importance of oil revenues in the overall development of the region, the oil sector in each of the case study countries has played a major role in shaping its economic, political and social life. Thirdly, due to its geographical location, each of the case study countries was involved in many historical moments of oil conflict forcing them into playing major roles in both regional and international politics. It is through the investigation of these roles here that I would argue provide a great platform for the analysis of interactions between political actors, both public and private.

In the four case studies discussed above, several main arguments which drawn from the theoretical framework in this chapter is used as an overall structure for the analysis. Base on the view that private authority emerges through specific activities in the process of negotiation and implementation of the oil concession, one of the main arguments that can be used in the analysis is that the act of negotiating and implementing concessions effectively authorizes the power and authority of the oil company. Thus, it is not simply that the private corporation holds or wields authority

to achieve the concession, but that the process of gaining concession authorizes new and novel modes of private authority. As discussed throughout this chapter, the investigation of interactions and relationships between public and private actors is vital to the understanding of the nature of the public/private power and authority. For this very reason, another one of the main arguments that can be used in the analysis is that the act of public/private interactions in the process of gaining the oil concession can authorize different forms of private authority.

### 2.6.2 Colonialism, Expertise and Political Geography

Because of the nature of the case studies involved in the analysis, the main issue that arises as a theoretical challenge in the research is the understanding of public/private power and authority in relation to the discipline of political geography and the concept of colonialism and expertise. In this, the chapter has identified three specific contributions that significantly advance thinking on these issues/challenges. These volumes include Joe Painter's "Politics, Geography & 'Political Geography': A Critical Perspective" (1995), John Allen's "Lost Geographies of Power" (2003) and Timothy Mitchell's "Rule of Experts: Egypt, Techno-Politics, Modernity" (2002).

As each case study situate itself in the midst of colonialism, an ability to grasp the concept of colonialism and its impacts on power and authority at play is vital to the analysis. In this, Timothy Mitchell's volume offers comprehensive view on "postcolonial" which he refers to as "forms of critical practice that address significance of colonialism in the formation and practice of social theory" (Mitchell 2002: 7). As he examines the making of the economy, he asks broader questions about politics and expertise. It is these examinations here that I would argue make great contribution to the analysis of the case studies. Coincide with suggestion made by Lipschutz and Fogel (2002) that authority is exercised by private actors through virtue of their expertise, I would argue that Mitchell's analysis on the practice of modern expertise in Egypt ranging from civil engineering, accountancy, administration, political science to economics help us to better understand the impact that colonialism and expertise have on the exercise of power and authority.

Alongside the concept of colonialism and expertise, due to the fact that public and private actors in the case studies exercise their power and authority in ambiguous space under different circumstances leading to number of implications, the discipline of political geography is also vital to the analysis here. On the one hand, the volume “Lost Geographies of Power” by John Allen provides provocative account of power in the context of space in social theory where he insists that power is relational and argues that power in different “modalities” (authority, domination, seduction, manipulation, coercion and inducement) work differently across, through, or upon space (Allen 2003: 2). On the other hand, Joe Painter’s “Politics, Geography and ‘Political Geography’: A Critical Perspective” gives valuable examination of the changing relations between geography and politics where he argues that “the traditional divisions between economic, social, political and cultural geography” is no longer relevant in the analysis of human geography today (Painter 1995: 1). As a result, we need to rethink about the way in which we look at politics and geography. All in all, I would argue that both volumes help us to build a more comprehensive understanding of the way in which various actors exercise power and authority in different spaces.

## **2.7 Conclusion**

The primary aim of this chapter is to establish a theoretical framework as tool to help us investigate the public/private exercise of power and authority in the oil industry. In this, the chapter starts with the view that there are growing trend of cooperation among non-state/private actors that result in the creation and implementation of issue-specific transnational norms and rules and the subsequent shift from public to private forms of governance and authority. Through this view and as part of the aim to establish a theoretical framework for the overall analysis, the chapter investigates the work of a number of scholars with great contributions to the field.

Firstly, the chapter critically discuss analytical frameworks set by two different set of scholars Claire Cutler, Virginia Haufler and Tony Porter (1999) and Thomas Biersteker and Rodney Hall (2002), designed to better understand the emergence of the non-state governance systems and the conditions under which they may gain

authority to create policy. In this, the chapter concentrates on two volumes focusing on private authority in international politics, namely, Cutler, Haufler and Porter's "Private authority in International Affairs" and Biersteker and Hall's "The Emergence of Private Authority in Global Governance". From Cutler et al., we have learnt that private actors do indeed play influential role within the international arena and private authority does matter. It also has been highlighted that individual private actor, instead of acting as atomistic competitive units, they do tend to cooperate to construct "a rich variety of institutional arrangements that structure their behaviour" (Cutler et al. 1999: 333). Such cooperation allows these private actors to individually or jointly claim and eventually deploy private authority that ultimately affect not only the behaviour of private actors themselves but also those of states. Moreover, private authority can also emerge from the interactions between public and private actors as case studies in the volume have shown that firms may draw on the capacities of the state in constructing private authority and the state may delegate firms to certain responsibility to gain efficiency. From Biersteker and Hall, we have gained better knowledge of the nature of private authority in global governance. In this, it has been found that the influence of private authority have been growing in all directions involving many issues in our contemporary world. Authoritative private actors are also increasingly play "a critical role in the governance of [many] important spheres of social and political life" (Biersteker and Hall 2002: 203). These actors are now engaging in many responsibilities such as establishment of rules, regulations and standard, provision of social welfare and maintenance of security, all of which traditionally associated with state. Through these activities, private authority can be categorised into three types, namely, market, moral and illicit authority.

Secondly, the chapter investigates other theoretical challenges that are also vital to the analysis of the thesis as a whole. These theoretical challenges involve the understanding of the concept of power and authority in relation to colonialism, political geography and expertise. From the examination of the concept of power and authority in relation to colonialism and expertise, Timothy Mitchell has taught us that the development of the colonial empire very much depend on their resources and expertise, particularly technical ones. Thus, power and authority is very much tied to the ability to acquire and provide expertise. From the investigation of the concept of

power and authority in relation to political geography, Joe Painter and John Allen have given us great insight into the relationship between geography and politics. While Allen has explained that authority does work differently across, through, or upon space (Allen 2003), Painter has asserts that unequal access to resources accounts for differences in political power and authority (Painter 1995).

Through Biersteker and Hall's three levels of authority and Cutler et al.'s perspectives on the issue of relationship between public and private governance/power/authority, a strong enough theoretical framework can be established. In this, for the theoretical framework, the thesis draws on some key concepts including the erosion of state sovereignty and the emergence of private authority in world politics. This is again with particular attention to public-private cooperation in the context of oil concession agreements for the analysis. Due to the fact that the analysis involve examination of the relationship between different actors and the way they exercise their power and authority in different case studies, it is however important to also consider other theoretical challenges in the form of better understanding of the concept of public/private power and authority in relation to colonialism, expertise and political geography.

By addressing the question of how public and private actors exercised their power and authority in different oil concessions and identify their political and economic relationship using theoretical framework and other considerations discussed above, this chapter should makes some useful contributions toward our understanding of where the state and private authority stands on the major issues within the debates of international political economy.

## **CHAPTER 3: The Emergence of Private Authority in the Oil Industry: The Case of the 1933 Oil Concession Agreement in Saudi Arabia**

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Following the framework set out in the theoretical chapter, this chapter focuses on the historical emergence of private authority in the oil industry with particular attention to the oil concession agreement of 1933 in Saudi Arabia. In the analysis of this oil concession, the chapter explores the interaction between the Saudi Arab government and the Standard Oil of California (SOCAL), today's Chevron. In this, the chapter focuses on the activities and practices of the oil company during their operations in the country. As the process that lead to the emergence of private authority often involve many actors, the analysis mainly concentrate on the emergence of forms of private authority that private actors exercise in relation to the state.

Through the view that private authority emerges through specific negotiation and the implementation of the oil concession, the main argument in this chapter will be that the act of negotiating and implementing concessions effectively authorizes the power and authority of the oil company. Thus, it is not simply that the private corporation holds or wields authority to achieve the concession, but that the process of gaining concession authorizes new and novel modes of private authority. Together with this, base on the argument that non-state actors are increasingly taking on authoritative role in public domain, the chapter argues that these modes of private authority would remain important to the later historical moments of authorization, power and control. Examples of this will be provided through extensive investigation and analysis of the influence that private actors have on state activities such as policy-settings and provision of social welfare throughout this chapter.

Through concession arrangements, the mapping and discovery of significant new oil reserves transformed Saudi Arabia into a nation with the largest oil reserve in the world. As the development of public and private authority is not so very easily differentiated, the chapter aims to use the analysis of these arrangements with a particular interest in the emerging historical relationships between public and private

identities involved within the oil concessions to help us better understand public and private authority. Also, because all oil concessions involve so many players that the line between public and private identities is often blurred, the intention here is therefore to analyze the multiple identities and roles of actors in the oil concession such that the different forms of emerging private authority can be more clearly seen.

To get a more comprehensive understanding of the nature of the oil concession, it is also vital to investigate the background of the oil industry in the region. In this, the chapter briefly discusses the history of oil development in the region leading up to the negotiation and implementation of the 1933 oil concession agreement. In terms of the analysis, as the concession agreement ranges from loose and informal negotiations and consensus to highly institutionalized agreements and associations, analysing both formal and informal arrangements of the concession agreement between public and private actors would also provide us with an indication of how these actors gain and exercise their power and authority.

The data and information for the analysis and discussion in this chapter are drawn mainly from primary sources including reports, documents, and archival materials. The chapter also utilize secondary sources including books, journals and newspapers. While books and journals have mainly been gathered from various libraries and databases of e-journals, historical materials involving the negotiation and implementation of the oil concession have been collected from a number of important archival offices. These offices include the Middle East Documentation Unit at the University of Durham, the Foreign Office Records and the Colonial Office Records at the Public Record Office (PRO) situated in the National Archive in Kew, London and the India Office Records at the British Library Research Archive in St Pancras, London. Additionally, historical materials involving the US government have been obtained from various historical documentary publications from the United States. Apart from the secondary sources mentioned, other documents and reports from the Standard Oil of California, the Arabian American Oil Company and the Saudi Arabian Ministry of Petroleum & Mineral Resources will also be used as part of the analysis and discussion.

The chapter is organized into four parts. In the first section I will revisit the concept of private authority by relating it to the key thesis objectives with particular focus on the interaction between the state and private actors. The section concludes with a discussion of the different forms of private authority viewed as a framework through which to analyze the case study. In the second section, my analysis turns to different modes of authority in the oil industry itself. Taking a historical overview of the oil concession at the time, I analyze the oil industry and market in some detail by concentrating on the events which I would argue brought about the negotiation of the concession agreement. In the third section my attention moves toward the individual actors involved in the negotiation and implementation of the oil concession agreement where the analysis would be in terms of actors' practices and activities which lead to various forms of private authority. Lastly, I briefly conclude the arguments and evidences presented in the chapter, linking the contribution of the chapter to the overall theme of the thesis.

### **3.1 Placing Private Authority: Arguments by Cutler, Haufler, Porter, Biersteker and Hall**

In the discipline of International Political Economy (IPE), the exercise of political authority has always been one of the central debates. It is therefore not surprising to find that the growing importance of private actors in both the national and international politics has resulted in growing academic attention in the issue of private authority. As a result, the trend of IR literatures that has traditionally been state-centric with most of the analysis downplays the role of non-state actors are changing its tune. This is also due to the fact that the authority of the state today appears to be challenged in so many ways by non-state actors.

Traditional accounts also see that there is a clear line between public and private authority in both the national and international scene. As noted in Chapter 2, derived from Weberian conceptions of the state and of the domain of international politics together with traditional thinking of international relations theory, it has been suggested that there is a clear fundamental difference between the political authority in the domain of domestic and that of international (Weber et al. 1948). In this,

scholars such as Biersteker and Hall (2002: 3) explained that the essence of the state can be seen due to its ability to claim the legitimate authority through use of physical force within a given territory relying on “the habitual obedience of their citizens by establishing legal codes”. The ability to rely upon legitimate authority for habitual obedience is however largely absent in the international system. This led to suggestion that there is absence of a “global state” therefore existence of legitimate authority within the international realm. Still, because states can be seen as both the source and the exclusive location of legitimate public authority, most explanations of international behaviour have concentrated mainly on the coercion employed by states.

Not only have states been labelled as the principal actors in the international arena, they are also painted to be the only legitimate actors in international relations. In this, the aim of the analysis in this chapter is to demonstrate that this is not always the case, arguing that there are evidences to suggest that other legitimate actors and patterns of public-private authority have long been emerging. Consequently, within the last few decades, we have seen substantial increases in number of literatures with new theoretical and empirical evidences that challenge such traditional notions on the subject of authority in the international system. These literatures pose important questions about the growing emergence of actors other than states that have taken on authoritative roles and functions in the international system (see Section 2.1). The progress at which these actors develop into such roles and functions, I would argue, is at the heart of the historical emergence of private authority under discussion here.

As discussed in depth in Chapter 2, beginning with the question of whether “corporations are truly ruling the world today?,” Cutler, Haufler and Porter’s “Private Authority in International Affairs” examines the causes and consequences of the success in gaining legitimate power by private actors that directly or indirectly work for profit, such as firms, business lobbies, industry associations and other corporate actors. Taking a broader approach to the concept, Biersteker and Hall’s “The Emergence of Private Authority in Global Governance” on the other hand seeks to provide a comparative examination of private authority beyond the realm of international political economy.

Despite the differences, both sets of scholars argue that the practices of private or non-state actors are heavily linked and associated with the phenomenon of globalization. Although they do not exactly express where and when and by whom these practices emerge, they both explain that these practices are carried out through interactions of various actors in the organization or institution within the international systems. Such practices are considered to be exercised by global market forces, by private market institutions engaged in the setting of international market standards/norms, by human rights and environmental non-governmental organizations, by transnational religious movements and by mafia/mercenary groups. This argument, I would argue, has been the most convincing explanation of the sources of private authority yet so far. To situate private authority therefore, I have been inspired by the thinking of Biersteker and Hall in taking a typology approach to unhinge the mystery of private authority mechanisms. Through this approach, they managed to provide a better understanding of non-state actors in the international realm and reflect upon the practices and authority exercised by different non-state actors as agreed by many scholars. In this, they discovered that the boundaries of public authority are being challenged by at least three major forms of emerging private authority, namely, market authority, moral authority and illicit authority.

Thus, base on the discussion in Chapter 2, I would argue that despite the difficulty in pin-pointing the exact location and moment of the emergence of private authority, it is possible to categorise them using Biersteker and Hall's typology approach. With this, I would also argue that although the actions of what is called "private authority" as mentioned above do not directly associate with government institutions, the understanding of state actors is also vital and is another important issue here.

### **3.2 IPE and New Mode of Authority: Private Authority in the Oil Industry**

In historical context, the birth and development of the International Political Economy as a field of enquiry depend very much on the economic coordination of public and private actors. In this, I argue that the oil industry is an especially important example of such economic coordination as the money involved within the industry was crucial to the development of the IPE discipline (Hewson and Sinclair

1999). With it, I consider the way in which the relationship between public and private actors emerges as crucial to the understanding of such economic coordination. The main question here is why should we view coordination within the oil industry as a form of private authority?

Through the investigation of the oil industry and market, the conception of “private authority”, which I try to identify by unravelling the negotiation and implementation of the oil concession agreement under discussion here, is set by the possibility that the private sector, market actors, non-governmental organizations, transnational actors, and other institutions can exercise different forms of legitimate authority. Thus, by concentrating on the oil company as non-state actor, I argue that the analysis of their practices in the oil industry and market would lead to evidence of “new modes of authority” being exercised, hence the emergence of different forms of private authority.

A brief review of the nature and evolution of the analytical foundations of the concept of “private authority” illustrates that there are no obvious indications of when this mode of authority emerges or where it emerges from. Adopting a study of non-state authority from authors such as Cutler, Haufler, Porter, Biersteker and Hall, private authority analysis emerged as an analytical attempt to address inadequacies in the conventional state-centric approaches to the understanding of political authority in the international system (Cutler 1999).

Focusing firmly on the objective of the thesis, I argue here that although it is somewhat impossible to pinpoint the exact moment in the history when this new mode of authority emerges and where it emerges from, the 1933 Saudi oil concession agreement which involves a non-state actor (Standard Oil of California “SOCAL”) would reveal how the new mode of authority came about. The way in which the oil company can be seen as a representation of non-state identity and the position that enables them to negotiate with the Saudi government is what makes this analysis so interesting and useful. Such a position discussed here involves their ability to offer assistance to the state such as technical assistance including the exploration and the extraction of oil, financial assistance including cash injection for the concession and social development assistance including the ability to help the government establish

schools and hospitals. All of these I would argue acts as great foundations in gaining authority of their own. Another interesting question here is whether such mode of authority is given by or taken from the state. In this, Susan Strange has famously argued that the new wave of actors with their cooperation and their increasing involvement in work which is traditionally done by the state such as policing, there is a clear trend which she called “the retreat of the state” (Strange 1996).

According to Peter Odell (1980, 1983, 1997), the oil industry has long commanded public, political and academic attention. Throughout its history, the exercise of political authority has been at the heart of the debates for scholars in the International Relations (IR) discipline. With the state-centric approach, traditional IR scholars often argue that such political authority is mainly maintained and exercised by a single form identity, the government. As already discussed extensively in Chapter 2, this view is however changing as there are growing evidences to support the growing importance of non-state actors (see Section 2.3.1). For instance, it has been widely accepted that apart the oil-importing and the oil-exporting governments, the multinational oil giants are the other player which is often seen to be also hugely influential and actively involved within the industry. It is therefore understandable why it is hard to distinctively draw the line between the roles of these private and public identities. Although this has been the case, these actors with their actions either individually or as a group or institution, are often seen as the pivotal force propelling the world into a series of political, economic and social crises. By any measures, their roles within the oil industry have definitely had a direct impact on the well-being of both developed and undeveloped economies (Roncaglia and Kregel 1985). What could be argued then is that, through the exercise of their authority, these actors as major players within the international oil industry had a wide-ranging impact on the evolution of the world economy, an impact which varies from country to country.

In this, the multinational oil companies, which dominated the international oil business until the late 1960s (Rees and Odell 1987), were viewed as a major contributors to the economic and social development efforts in Third World nations with oil resources. While some would argue that oil companies were exploiting producer states by transferring economic rent resulting from the concession which

deprived them of their development potential, others would argue that they help to develop these nations social and economic infrastructure. Either way, I would argue that it is clear that these multinational oil companies are in the position of power and authority which can have a direct effect on the development and well-being of the producing nations.

With a detailed examination of the roles of the private actors during the oil concession agreement, there is a possibility of a much clearer understanding about the emergence of political authority. As the working of the oil industry depend very much on political and economic choices of both the oil-importing and the oil-exporting countries through their relations with the multinational oil companies, public-private interactions are vital to the establishment and development of the oil industry. Because the multinational oil companies hold a key position in such interactions, by following their practices and activities in the process of gaining and implementing the oil concession, we can identify the root of where new modes of authority begin to emerge. This, I would argue, depends on three main factors: first, their ability to provide technical expertise in terms of oil exploration and extraction knowledge; second, their ability to provide marketing expertise in terms of exporting oil products to the international market; and third, their ability to gain trust from local residents through their social development programmes, i.e. building schools, hospitals, etc.

Not only it is crucial to highlight the practices and activities of these oil companies as the root of various forms of private authority. An investigation of other identities and roles of different actors involved within the oil concession is also a must. Mapping the practices and activities of various actors with the three modes of emerging private authority proposed (Moral, Market and Illicit authority); the next section analyzes the 1933 Saudi oil concession agreement in detail. In this, the section starts with the investigation of the structure of the international oil industry in the context of power and authority involved.

### **3.3 Oil Politics: Structure of the International Oil Industry and Authority within**

The study of the emergence of private authority in the oil industry would be impossible without some understandings of the structure of the oil industry itself. In this, I examine the characteristics of both the market and actors within it. Although structure and structural change can be seen as amorphous concepts, wrote Edith Penrose (1968), this section aims to briefly sketch an outline of the structure of the international oil industry and the roles of several actors actively involved. This will provide a foundation for the more specialized discussions to follow in the later sections.

What we are concerned with here are the forms and structures in the institutional and administrative sense which can be witnessed in the rule and regulation provided by governments and multinational companies. Although such rules and regulations are often seen to be associated with decisions affecting factors such as investment, output, prices, purchases and the sales operation of the industry, the main concern here is however not to dwell on the technical aspects of this framework but to generally discuss the evolution of the structure and framework of the oil industry in relation to political and economic considerations. This, I argue, would be hugely beneficial to the understanding how major actors involved in the agreement and make their decisions in seeking to finalize the oil concession. In part, the investigation of the framework and structure would also help to highlight the relationships between these actors as they carry out their dealings in different oil concession agreement.

Since the very beginning of the oil industry, oil and politics have always been closely associated, both nationally and internationally (Rees and Odell 1987). As a result, there is rarely a day passes without oil issues being in the news (Odell 1983). Discussing noticeable movements within the oil industry that have impacted upon the stability of the world political economy in recent decades, scholars have recently argued that there is a change in the distribution of political power both among and within states – affecting the actions of sovereign governments that therefore altered

authorization, power and control of the oil industry on the international stage. Despite the contemporary nature of this argument, the analysis of the 1933 oil concession agreement would prove that such shifts or changes of authorization started much earlier than suspected.

Looking back into the history of the industry, the main turning point in the changing structure of the international oil industry were the two World Wars, both of which fostered change in the roles of companies and governments. Here, we are interested in the events in relation to these actors prior to the 1933 oil concession between the Saudi government and Standard Oil of California. These events are of course somewhat affected by the post World War I trends which would also be something that must be taken into consideration. It is also vital to recognize how the post-war period shapes the industry which allows the possibility of the oil giant cooperating with the Saudi government. I argue that states (particularly the parent government) have the power to back-up the oil company to help them achieve their goals and also provide bargaining power in laying the foundations for the oil concession agreement. To understand this in better detail, as mentioned, the basic structure of the oil industry is analyzed here, then, in the latter sections, the different relationships, roles and positions of different actors in oil industry building up to the year 1933 of the oil concession are examined.

The First World War demonstrated the military and naval importance of oil. The events were to re-draw the map of the Middle East and lead to a scramble for concessions in that area (Wilkinson 1991). In the context of the thesis, the competition for concessions gives us great insight into the inter-related struggles between major actors within the scene, hence the emergence of new modes of authority. At the same time, it allows public-private interactions which is important to the analysis of private authority here. In this case, during the First World War, the American companies and the American government played a prominent role in gaining oil concessions and discovering very large oil resources in various parts of the world, notably Latin America and Southeast Asia (Anderson 1981). The numbers of concessions these companies gained gave them an upper-hand in controlling the oil market and some would argue result in the ability to authorize and decide important issues traditionally done by state.

As these oil companies are vertically integrated, they operate by means of associated or subsidiary companies, all in a production cycle including exploration, production, transportation, refining and distribution (Roncaglia and Kregel 1985). As a result, it allows these companies to enjoy a greater degree of control over the oil market when compared to the control that would be given if each production process is taken separately. Medium-sized and small companies which operate in one single production process have much less market authority. These companies are mostly state-owned holding companies under governmental control which are primarily involved in the initial phase of the production process (Rees and Odell 1987). However, today, there is a clear sign that these companies are increasing their role in the downstream activities.

In examining the issue of private authority in international affairs, Timothy Sinclair (1999: 158) argued that bond-rating agencies gained private authority through their “capacity to substitute for banks in disintermediated capital markets, and solve the information problem between those with funds and those seeking them”. In this, this type of private authority which Sinclair termed “epistemic authority” is very interesting as it coincides with the concept of authority of “authorship” proposed by Biersteker and Hall. As a subdivision of “moral authority”, this form of authority associates with a capacity of private actors to provide expertise (see Section 2.5.3). Thus, I would argue that through virtue of their resources and expertise, the oil company under discussion here (the Standard Oil of California – SOCAL) holds a level of authority of “authorship”. Apart from this, their dominant position in the oil market which allows them to take control the oil market to a certain degree also lead to other forms of authority. Although this dominant position is deemed by many as the effective way to develop the market, there is however a risk that these oil companies might, should they wish, abuse their role as controller of the market (Cutler et al. 1999). This could in effect damage their relationships with both the oil producing and consuming countries. For this reason, it is vital to understand how these oil companies position themselves in the market in relation to other actors involved and how such position is linked to the authority exercised. In this, the first key thing to note here is in their ability to make judgments in the market as a feature

of their authority. This, I would argue, can be seen as a form of “market authority” (see Section 2.5.2).

Not only does market authority highlight their position within the market itself, this form of authority can be seen to emerge out of the relationship between the oil company and those who are subject to the oil company’s decisions and practices. This relationship does not come naturally by any means, but it emerges from the resources and investments accumulated by the company with the aid of their parent’ government, in this case the United States. Similar to what Sinclair has explained about the situation of bond-rating agencies market (Sinclair 1999), I argue that the authority emerging from the actions of the oil company has not grown as a consequence of change in the nature of the market during the post-war period but has instead grown from the ability to provide knowledge and expertise. This can be seen as the main source that helps these oil companies confirm their strong relationships with states. Such relations, I argue, would lead these oil companies to taking roles as “quasi-regulators” which would in turn increase their status considering their private position. This new status would then contribute to them being placed in a privileged position assisting governments in carrying out public tasks and responsibilities, hence, allows these companies major influences over such activities.

A brief investigation into the roles and actions of the oil company and other actors involved within the oil market in this and the earlier sections of this chapter has contributed to forming a clearer picture of how new form of authority emerges. As touched upon in the earlier part of this section, public intervention is one of the major factors affecting a degree of authority and control which these oil companies possess through concessions gained and their vertically integrated nature. This so-called “public intervention” can be seen to play a decisive role in influencing the make-up of the oil sector. This is highlighted through the relationship between public and private identity in both the national and international scene. As often witnessed in both the oil producing and consuming countries, an ensemble of commercial and fiscal regulations by the public intervention in the form of governmental action, with highly complex details, conditions the profitability of the possible lines of action of the participants. Thus, as the government embark on the process of setting standards and regulations, its decisions and policies in the development area of the oil sector,

especially in this case study due to the nature of Saudi Arabia at the time, have a huge and even more direct impact on conditions of profitability which these companies can gain. So, the main focus of the debate here is the relationships, in terms of power, control and most importantly authorization, between public and private actors. This relationship is to be investigated in greater detail during the analysis of the 1933 concession itself in the latter sections.

### **3.4 The Bahrain Oil Concession: First Signs of Private Authority?**

In the quest to better understand the nature of private authority, the concession agreement should be seen as a realm where the interaction of exercises of authority, power and control between public and private actors occur and develop. The focus and the argument here is not simply that the actors involved holds or wields authority to achieve the concession, but that new forms of authority emerge out of the process of gaining the oil concession. Thus, in this case study, I therefore see that the interactions and relations between these actors in the dealings of the concession would be the key in trying to grasp how these new modes of private authority emerges and operates. Taking the view that practices, activities and decisions involved in achieving and applying the oil concession agreement help to unravel the process by which private authority emerges, I argue that the negotiation and implementation of a concession ultimately permit the exercise of private authority. This is to be highlighted in the analysis of the 1933 oil concession in the next few sections.

Prior to the concession agreement between the Saudi government and the Standard Oil Company of California in 1933, oil markets and the world economy in general were going through the economic depression that has began with a crash in prices on the New York Stock Exchange in October 1929. The event in turn hugely affected the Kingdom of the Hedjaz and Nejd<sup>6</sup> and its dependencies (Ferrier and Fursenko 1989), precursor of Saudi Arabia. At that time, the kingdoms' economic system was undeveloped, no real budget existed and no paper currency circulated. The

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<sup>6</sup> In 1932, the Kingdom of the Hedjaz and Nejd officially became the Kingdom of Saudi Arabia

government drew most of its income from fees paid by pilgrims<sup>7</sup> to Makkah, so when the number of pilgrims plummeted, the government's main source of revenue began to decrease rapidly (Facey et al. 2006). Such depression meant that the kingdom's financial situation was in a bad shape, King ibn Saud, responsible for both the material and spiritual welfare of his subjects, was then confronted with the problem of how to finance the country's and his royal family's needs. Consequently, their financial difficulties were to be one of the main factors which determined how the concession agreement with the oil company was negotiated. So, despite King ibn Saud being reluctant to allow Western influences into his country, in the interests of population welfare, economic competitiveness and growth of the nation as a whole, Saudi Arabia eventually gave a substantial amount of their domestic regulatory authority to the multinational oil company through the signing of the oil concession agreement. In this, I analyze how the position that the oil company held from gaining the concession with the Saudi government paved the way through which different forms of authority, other than those of the state, emerged, formed and exercised.

Although the future was to reveal petroleum resources unmatched by those of any other country, to exploit them the Saudi government realized that they would need the capital, business ability and technical know-how of the oil companies (Stocking 1971). Not only would these three resources of the oil company become the main contribution in the process of gaining the concession, but they would also be deployed to win the trust of the Saudi government. This trust, I would argue, does not rely only on its own content but also the relationship that was built during the negotiation process for the concession. The important point to note here is that it is consent which based on or a product of this kind of trust that contributes to the emergence of authority. The circumstances in which the concession was constructed also acts as a platform for such relationship and trust to grow. Thus, these circumstances highlighted the importance of problem solving resources that both parties are able to offer to each other through exercising the concession, in this case, the oil deposits from the Saudi government and the business and technical know-how from the oil company. Although the resources of these actors can be labelled as

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<sup>7</sup> A Pilgrim is a person who undertakes a pilgrimage, an annual religious event for Muslim of all races that occurs between the eighth and the thirteenth day of the last month of the Muslim year.

a significant force in achieving the concession, my interest here is not so much in how these resources are used as bargaining tools but rather in how they are used to build relationships and trust between the two private and public actors which would then lead to new modes of authority. The following analysis of the negotiation of the concession aims to outline this contention in further detail.

Leading to the negotiations for the concession in Saudi Arabia in the early 1930s, the possibility of oil in Arabia had been investigated as early as 1923 by the New Zealand-born, Major Frank Holmes<sup>8</sup>. Acting for a London syndicate speculating in concessions, Major Holmes was a British geologist who served in the British forces during WWI. His progress through the Middle East, I would argue, should be seen as an early example of individuals from the private sector working with public sector in the conduct of a business agreement. In the quest for an oil concession in Saudi Arabia, his attention first turns to Bahrain, a group of islands off the coast with community of traders and pearl-fishers in the area that was known in the old day as Hasa district of Nejd<sup>9</sup> (Map 3.1 and 3.2). The presence of Major Holmes in the region was of huge interest to the imperialist powers trying to gain control over the region natural resources at the time, particularly the British and American. According to American sources, Major Holmes left Bagdad for Hasa in April 1923 and was expected to meet the Sheikh to discuss the possibility of getting a concession in Bahrain (Owens 1923). Two months later, in a secret letter to the Secretary of State, Washington, Thomas Owens, an American Consul in Bagdad reported that “it was announced in the Bagdad Times that a concession embracing 40,000 square miles in the Hasa district of Nejd had been given to Major Holmes in the name of the Eastern and General Syndicate, London” (ibid.: 2). Despite the news, it was to be found later that this was nothing more than media speculation. The reality was that although the King was very much in favour of Major Holmes’

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<sup>8</sup> Major Frank Holmes (*b.* 1874). A British geologist who worked in a South African gold mine and then for two decades, specializing in gold and tin was an itinerant mining engineer all around the world – Australia, Malaya, Mexico, Uruguay, Russia and Nigeria. After serving as a major in the British forces during WWI, Major Holmes joined Eastern and General Syndicate Limited in 1921 to pursue the oil concession in Persia.

<sup>9</sup> From “the Kingdom of the Hedjaz and Nejd” – Nejd or Najd is a central region of Arabian Peninsula

proposition, due to the political situation at the time any agreement would become much more complex.

*Map 3.1: Saudi Arabia and Neighbouring Countries*



Source: Facey et al. (2006: 22)



Thus, as highlighted in the earlier section, I would argue that this “public intervention” in the form of British influence plays a decisive role in the quest to achieve the oil concession agreement here. In fact, this influence is one aspect of the European and American colonizing practices that affected the whole of the region at the time. As it turned out, this type of influence of colonial practices would not only feature in this case but also in the case of Iran, Kuwait and Iraq (Chapter 4, 5, and 6 respectively). A certain degree of understanding about authority through colonial practices is therefore vital to the analysis of private authority involved in each case study. In this, inspired by the work of David Scott (1995), John Allen (2003: 85) explains that colonial practices operated through “inducement and obligation to bring about new forms of colonial subjectivity which, to those both near and far, would be deemed *improving*”. Such improvement, he suggests, involves “the willingness to free subjects to regulate their own conduct in ways not necessarily of their own choosing [where it] holds the key to how government is possible at points remote from their application” (Allen 2003: 85).

Allen further asserts that this concept of government “holds tenaciously to the view that power [and authority] is always and everywhere... [often redistributed] between different levels – from regional and national state agencies to non-state agencies and so on – [bringing] a more distant population within reach” (ibid.: 86). Thus, John Allen’s views not only provide great insight into power and authority through colonial practices but also into the nature of the relationship between the colonial power (the British) and its subject (the Saudi Arab) under discussion here. As observations in the latter sections will indicate, his view on the redistribution of power and authority from state agencies to non-state agencies would also shed some light into the transfer of authority to the oil company from its parent government.

As a result of the superior position gained from their colonial power, the British were well placed to control any oil that might be discovered in Saudi Arabia. However, because the British government (in cooperation with British Petroleum (BP) or what used to be known as Anglo-Iranian Oil Company (AIOC)) at the time had more than enough oil in Iran and Iraq, they ignored the prospect of oil in Bahrain (Sampson 1975). Consequently, Major Holmes took advantage of the situation and managed to

eventually win the concession for Eastern and General Syndicate (EGS). Here, Major C. K. Daly, the British political representative in Bahrain informed the British government through a telegram that “Sheikh Isa [finally] gave Holmes an oil concession for Bahrain on May 12<sup>th</sup>” (Daly 1923: 1). Despite this, EGS realized that they still needed permission from the British government to begin oil development, as a result, through their representative in London, H. T. Adams, they wrote to the British Colonial Office (see Figure 3.1 for a copy of the telegram in full):

*“I am instructed to inform you [(the British government)] that... Major Frank Holmes has secured a petroleum concession covering the whole of the Bahrein Islands, Persian Gulf, for a period of 70 years from the 12<sup>th</sup> May 1923... the agreement is in hand, it will be sent to you for approval... should you consider it desirable that such exploration and development work should be shared with other British interests, my syndicate will gladly co-operate” (Adams 1923).*

This situation further highlights the colonial power of the British that was very much influencing the oil development in the region and again confirms John Allen’s argument that it is possible to govern at the points remote from their application (Allen 2003). Initially, the British reacted angrily to the request stating that the EGS did not follow the correct procedure by asking them for permission before entering the negotiations. They even criticized the Sheikh for breaking the promise not to enter into negotiations or grant any concessions to any person, or persons, not approved or appointed by the British government. Trying to force a cancellation of the concession that was granted to Major Holmes, the British government wrote several letters to the Sheikh of Bahrain pressuring him to change his mind (Knox 1923). However, concern that such tactics would not “promote the general interests of British commerce in the Persian Gulf and might have undesirable effects in other ways” (Devonshire 1923: 1), the British government eventually gave in. As a result, EGS was now able to begin a process of oil development in Bahrain. Although this is the case, because of its limited resources having only less than £100,000 in capital (Figure 3.2), the company was not able to carry out any proper explorations or operations (Robertson 1979). As a result, the company went to look for a partnership with intention to even sell the concession for a quick profit.

*Figure 3.1: Telegram – EGS Requesting Permission from the British Government for Oil Development in Bahrain*

EASTERN AND GENERAL SYNDICATE LIMITED,  
19, St. Swithin's Lane,  
London, E.C.4.  
31st May, 1923.

ENS.

Sir,

I am instructed to inform you that this Syndicate's representative in Arabia, Major Frank Holmes, has advised us that he has secured a petroleum concession covering the whole of the Bahrein Islands, Persian Gulf, for a period of 70 years from the 12th May 1923, but the exact terms of the concession are not yet known to us.

My Directors understand that, in a treaty between the British Government and the Bahrein Government, the latter undertake to grant concessions only to British interests and that any concessions are subject to the approval of H.B.M. Government.

I am therefore to give you this notice that the Bahrein Concession has been granted to this Syndicate, and to say that immediately the agreement is to hand, it will be sent to you for approval.

I am to add that any assurances that may be required as to the entirely British status of this Syndicate, or as to its ability to find whatever capital is necessary to explore and develop the concession, will be forthcoming, and that you should consider it desirable that such exploration and development work should be shared with other British interests, my Syndicate will gladly co-operate in this way.

I am, etc.,

For Eastern & General Syndicate Limited  
(SD.) H. T. ADAMS.

Mr. Secretary of State, Secretary,  
Colonial Office,  
LONDON, E.W.1.

Source: The British Library Research Archive; India Office, File R/15/619, Adams (1923)

*Figure 3.2: Balance Sheet of the Eastern and General Syndicate, Limited, of London, dated the 19th of June, 1922*

<b>EASTERN &amp; GENERAL SYNDICATE LIMITED.</b>	
<b>CAPITAL.</b>	
<u>Authorised</u> :—£50,300 in 200,000 Ordinary Shares of 5s. each, and 6,000 Deferred Shares of 1s. each.	
<u>Issued to date of this Report</u> :—60,407 Ordinary Shares =	£15,101 15 0
6,000 Deferred Shares =	300 0 0
	<u>£15,401 15 0</u>
<b>Directors.</b>	
EDMUND DAVIS. • F. W. GAMBLE. E. W. JANSON. J. E. H. LOMAS. P. C. TARBUTT.	
<b>Bankers.</b>	
THE NATIONAL PROVINCIAL AND UNION BANK OF ENGLAND LIMITED, 2, PRINCES STREET, LONDON, E.C.	
<b>Solicitors.</b>	
HOLMES, SON & POTT.	
<b>Auditors.</b>	
J. DIX LEWIS, CÆSAR & CO.	
<b>Secretary.</b>	
H. T. ADAMS.	
<b>Office.</b>	
19, ST. SWITHIN'S LANE, LONDON, E.C. 4.	
<b>REPORT OF THE DIRECTORS.</b>	
<i>To be submitted to the Ordinary General Meeting to be held at the Office of the Company, No. 19, St. Swithin's Lane, London, E.C. 4, on Monday, the 19th day of June, 1922, at 2 o'clock p.m.</i>	

Source: The National Provincial and Union Bank of England Limited (1922: 12)

Holmes first went to the United States to sell the Bahrain oil concession where he initially offered the rights to Exxon for \$50,000 but Exxon rejected it in what was later described as “the billion-dollar error” (Abir 1988). Holmes finally succeeds

when he approached Gulf who paid \$50,000 for the concession agreement and sent out their top geologist, Ralph Rhodes, who soon confirmed that the area would yield oil. However, as a member of the Iraq Petroleum Company (IPC), Gulf was unable to go ahead on their own due to the Red Line Agreement they signed in 1928 which prohibited them (and any of its members) from independently seeking oil interests in the ex-Ottoman territory. They tried to interest others but without success. They then made a historic error, instead of pulling out of IPC; they offered their Bahrain concession to Standard Oil Company of California (SOCAL) who were outside the Red Line Agreement (Rees and Odell 1987).

Although an understanding of the history of interactions between various actors discussed above is crucial to the analysis, what I am interested in here is not how SOCAL came to hold the concession. Rather, I am interested in the way in which the private actor, in this case represented in the form of Frank Holmes and eventually SOCAL itself, through Bahrain then the Saudi oil concession, exercised private authority. For instance, Holmes' quest in finding a partner company in SOCAL to take on the concession I would argue confirms the argument that the process of gaining concession does indeed authorize new modes of private authority. In this case, the authority Holmes possessed resulted from his relationship with the Bahrain government through the oil concession where it led the government to yield a substantial amount of their negotiation power and authority to him in searching for and completing talks with SOCAL in taking the Bahrain oil concession. As stated in Chapter 2, this very much depends on states becoming convinced that such delegation of power and authority would lead to better efficiency (see Section 2.5.1).

Despite Holmes' success in drawing SOCAL into agreement to buy the Bahrain oil concession from EGS, the transfer of the concession was still made difficult due to British involvement. This illustrates the complexity of the interaction of authoritative power which not only involved the producing nation and oil company itself but also other actors that might be affected by the concession. In this, the British government made it difficult for SOCAL to buy the concession from Holmes by insisting that any establishment of operational company in Bahrain must have a majority of British directors. The situation was only resolved through intervention by the United States government confirming my argument in the earlier part of the chapter that many

modes of authority from various actors are at large in the oil concession. Here, acting in support of SOCAL, the State Department of the US government intervened by quoting the Open Door principle resulting in the modification of the restrictions, thus, allowing Standard Oil of California to own the concession through a Canadian subsidiary (Jacoby 1974). Again, this intervention by the US government further signifies public/private cooperation that exists in the process of gaining oil concession.

Although Bahrain was never to become a major oil producer, and to this day it remains a centre for trading and banking rather than oil, its real importance in the context of this research is how such a small concession can give us a glimpse of how the process of gaining oil concession authorizes new modes of private authority. It also confirms the junctures at which a variety of forms of authoritative power from different actors were present in the process of the concession. Additionally, from a historical point of view, the Bahrain concession is seen to be a stepping-stone to the mainland of Saudi Arabia, twenty miles across water, where the largest oil producing nation emerges. The next few sections of the chapter present the analysis of the 1933 Saudi oil concession from the very beginning as I try to gain a deeper insight into the nature of different modes of private authority that arise from the process of obtaining the oil concession.

### **3.5 Authorization of a New Mode of Authority: How Private Authority is exercised**

Again, the process of gaining an oil concession presents us with the opportunity to witness the authorization of new modes of authority. In this, reflecting on the work of scholars such as Ronnie Lipschutz and Cathleen Fogel (2002), we can see at least three different ways in which private authority is exercised by the oil company (see Section 2.5.3). First, the way in which the oil company is able to gain privileged position that allows them the power and authority to set the agenda in the industry matter. This is argued to be heavily reliant on their ability to gain access to governmental decision-makers. Second, the way in which private authority is exercised by the oil company through virtue of their expertise. This is argued to be

linked to the case where the oil company provides expert advice as part of their efforts to influence policy preferences. Such expertise would include technical know-how and an ability to provide information difficult to acquire, compile, organize, or analyze. Third, the way in which private authority is exercised by the oil company is seen to be involved with their emancipatory and normatively progressive social agendas. Thus, in connections with the arguments set out in Chapter 2, the remainder of the analysis in this chapter concentrates on the different ways in which private authority is exercised. Here, I focus on providing example of how private authority emerges, operates and develops under various circumstances as the main body of the analysis.

Although at a glance, the Saudi oil concession agreement seems to be politically straight forward with a simple logic of supply-demand between the two parties; the negotiation towards completion of the agreement was, however, littered with difficulties. These difficulties, as mentioned in earlier sections, ranged from King ibn Saud's reluctance to open the door to Western exploitation to the intervention of the British government (Stocking 1971). The investigation of these difficulties in the negotiation process is rather interesting and useful as it highlights variety of interactions between public and private actors which create moments of authorization. Therefore, not only would the concession lead to the biggest find of oil reserves in the history of the oil industry (Turner 1978), the negotiation and the process of gaining a concession here represents a series of emerging relationships between public and private authorities leading to the interplay of different modes of authority. Again, I argue that such ties reflect many contemporary arguments that the line where public authority ends and private authority begins is somewhat blurred. I would also argue that the interaction between the Saudi government and the Standard Oil Company of California (SOCAL) is a significant example that highlights how public and private actors, when working together to achieve mutual benefits; act as a platform in creating new mode of authority. By concentrating on the economic and social welfare of the Kingdom, the next section provides the analysis of what could be called "moral authority" as the new mode of authority (see Section 2.5).

Based on the argument that private authority emerges as a direct result of the implementation of emancipatory and normatively progressive social agendas by

private actors (see Section 2.5.3), I analyze how the oil company's policy helped them to build relationships with the Saudi government in the process of gaining the oil concession agreements. Further, I try to explain how the form of private authority emerging in the process of the agreement can clearly be labelled as a form of "moral authority" as discussed in Chapter 2 (see Section 2.5.1).

The latter sections of the chapter offer some ideas about how the oil company is often seen as a source of welfare improvement in the country. As such, we need to analyze the ability of the oil company to associate themselves with the nation's welfare development plans and way in which the government is seen to help the company to fit into these plans. I also seek to further understand how the oil company exercised such authority to formulate policy decisions, rules, principles and procedures in the industry, both at the national and international level. Additionally, I insist that it is extremely vital to also discuss the degree to which the company is aware of their exercise of "moral authority" and investigate their policy in relation to maximize such mode of private authority.

### **3.6 The Saudi Government, the Oil Company and the US Government: the Concession and Public/Private Cooperation**

As presented in Section 3.4, although Bahrain was never to become a major oil producer in the world, its oil concession in 1923 holds major significance in the way in which the oil industry in the region was developed. In particular, as many argued, it paved way for the first development of the oil sector in Saudi Arabia. One of the reasons for this view might have been because there were extensive reports that due to the discovery of commercial amount of oil in Bahrain, King ibn Saud was increasingly turning his attention to the possibility of finding oil in his own land (Philby 1964; Twitchell 1969). So, according to one of the King's advisers, although the King was, as he told his friend the amir of Kuwait, anxious to grant a concession for foreigners to look for oil (Philby 1948), he was more and more persuaded. As already explained in the earlier sections (Section 3.4 and 3.5), given the Kingdom's financial difficulties; he really had no choice on the matter.

For SOCAL, the interest in oil development in Saudi Arabia began even before the company started drilling in Bahrain as their top geologists during the exploration period recommended that the company should explore the mainland (Saudi Arabia) just across the water. Together with this, the American Consulate in Bushire also reported that Major Holmes had announced that “evidence of oil had been discovered about 50 miles inland from Bahrein, in the mountainous district of Nejd” (Fuller 1924: 19). Despite this, the company decided to keep their focus mainly on Bahrain and matters dragged on until 1932, when the first successful well in Bahrain was found. Following this success, largely at the behest of Mike Lombardi who was in charge of Bahrain operation, SOCAL finally decided to make a move and began actively pursuing their oil quest in Saudi Arabia (Anderson 1981: 24).

Given the economic situation in Saudi Arabia, it is perhaps not surprising to find that extensive texts and biographies about the oil concession tend to capture the fact that one of the main features in the process of the 1933 Saudi oil concession in relation to what I argue to highlight the exercise of “moral authority” is the issue of the welfare of Saudi people. First indicated by the Saudi government and heavily adopted by the oil company, this welfare issue seemed to be at the heart of the concession agreement, particularly for the Saudi government. And with this issue firmly on the card, the journey of the oil exploration in Saudi Arabia is seen here to begin when Harry St. John Philby<sup>10</sup>, one of the King’s principal advisers, suggested that they could find money by exploiting the country’s mineral resources (Pledge et al. 1998).

Through intense interests in financial resources to offset the sharp decline in pilgrimage<sup>11</sup> and customs income, thus, helping to raise the welfare of his people, the King quickly reacted, allowing Philby to arrange a meeting with Charles R. Crane<sup>12</sup>, a wealthy American philanthropist who had already financed a number of

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<sup>10</sup> Harry St. John Bridger Philby was an explorer, writer and served in the British Colonial Office as intelligence officer in the Middle East.

<sup>11</sup> Pilgrimage is an annual religious event for Muslim of all races that occurs between the eighth and the thirteenth day of the last month of the Muslim year. Saudi government expected annual income from up to half a million pilgrims that come to the country for the event.

<sup>12</sup> Charles R. Crane was a wealthy American philanthropist with great business knowledge of Eastern European and the Middle East.

projects in Yemen. Pointing out his intention to improve his people's well-being, King Ibn Sa'ud told the American during the visit that he gave first importance to the safety, health and economic prosperity of his people. Spiritual values were ultimately more important, he said, but this could scarcely flourish amongst people who had to live with disease, insecurity and poverty (Twitchell and Jurji 1947; Twitchell 1969). The visit ended on a positive note for both parties when Crane offered the King the services of a mining and civil engineer, who had been working for him both in Abyssinia and Yemen. However, the offer was conditioned by the undertaking of the government to place at his disposal all the transport, escorts and other facilities which he would need for a proper exploration of the resources of Arabia (Philby 1964: 75).

With the King's approval, Crane then assigned Karl S. Twitchell<sup>13</sup>, a Vermont-born mining engineer working for him in Yemen, the task of sizing up the potential of the Kingdom's natural resources. To search for evidence of water and mineral resources, Twitchell arrived at Jidda on April 16<sup>th</sup> of 1931, starting work a week later with a visit to Wadi Fatima to study the water situation there in relation to the pressing needs of Jidda. Khalid al Qarqani, a Tripolitanian by birth and now one of the King's principal advisers on economic and political questions, dispatched him up the Red Sea coast on a rapid reconnaissance of the water and oil possibilities of the area (Lebkicher et al. 1968). After sometimes exploring different areas for the possibilities of minerals and oil, Twitchell, encouraged by what he saw, tried to interest American companies on the King's behalf. He went first to Texaco, but they were not interested. He next went to Gulf and then to Exxon, both of which again turned down the offer because of the Red Line Agreement (Map 3.3). The luck turned when he approached Standard Oil of California who were already turning their attentions across the water from Bahrain (Sampson 1975).

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<sup>13</sup> Karl Twitchell was an American mining engineer and geologist. He was born in St. Albans, Vermont on June 7, 1885.

Map 3.3: An Illustration of the Red Line agreement of 1928



Source: Vincent Ferraro (2009)

Although it was clear straight away that SOCAL was interested in the concession, the company needed to confirm the credibility of Karl Twitchell. In this, they turned to their parent government for a reference. Here, an American Minister in Cairo, William M. Jardine reported in a telegram to Washington:

*“Mr. K. S. Twitchell, a mining engineer of New York City who has spent the last two or three years in the Hedjaz building roads and water systems and making reconnaissance oil and mineral surveys – being financed by Mr. Charles R. Crane to carry on this work in the interest of Hedjaz people... Twitchell impresses all of us as a genuine man and thoroughly imbued with the desire to render serve to the Hedjaz people” (Jardine 1931: 41).*

Apart from background of Twitchell, the minister also reported Twitchell’s visit to the states for the purpose of employing half a dozen oil and mining experts for the Hedjaz government (now Saudi Arabia) to carry on a more or less detailed survey for oil and minerals in the country. According to the Honourable Jardine, Twitchell “seems to have won the complete confidence of the Hedjaz governmental authorities... [and therefore convinced the ministry] of the absolute authenticity of all that [he] is claiming for the Hedjaz, and of the authority which has been invested in him” (ibid.: 41). Thus, not only did the minister’s telegram indicate that Twitchell was a trustworthy person, it also highlighted that Twitchell had gained a tremendous amount of legitimate authority from the Saudi government. Having this authority implies that there is some form of uncoerced consent or recognition of authority on the part of the Saudi government. Therefore, as discussed in Chapter 2 that this consent can be seen as a product of trust (section 2.2.1 and 2.5.1), I would argue that Twitchell’s position of authority in the case did not come about only through his technical ability but his trustworthiness. For this very reason, we can view Twitchell’s practices and activities in the US here as part of the process that lead to private authority being exercised. Also, as Pamela Burke argues that “states may abdicate their responsibilities and authority to private actors under certain conditions” (Burke 1999: 230), these practices and activities further highlight the transfer of authority from state actor (the Saudi government) to private actor (Karl Twitchell) implying that states are facilitating the private authority of actors.

Despite the assurance on credibility of Twitchell from the US government as mentioned above, the company was still unsure about the political situation in the region which at the time was far from stable. As a result, they again turned to their parent government, writing a telegram to the Secretary of State with several enquiries:

*“Standard Oil Company of California contemplates entering into a contract with Ibn Saud to search for and produce petroleum found in commerce quantities in the Persian Gulf coastal regions of Hasa. Has United States [sign] a treaty with Sheikh of Arabia? What protection could we expect in case of disorders in Arabia or in case the present government is overthrown and its successor were disposed to break our contract without just cause? Could legal aspects of controversy be adjudicated in any of the established international tribunals or elsewhere outside of Arabia or would we be wholly at mercy of arbitrary sovereign? Is there any likelihood that the United States Government may establish diplomatic relations with Ibn Saud as Great Britain, Holland and some other governments have done?” (Loomis 1932: 48).*

Having received the letter, the Department of State promptly replied. Although they did not ensure any protection but did indicate the on-going process and more possibility of future diplomatic work in the form of a treaty with Saudi Arabia, depending on the character and growth of American interests in the country. Here, the detail response stated in the telegram dated October 26, 1932:

*“This Government has no treaty with Ibn Saud but it has agreed to negotiate a treaty of commerce and navigation. Meanwhile, in an exchange of notes which is now in the process of negotiation provision is made that American national in Saudi Arabia shall enjoy the fullest protection of the laws and authorities of the country and that they shall not be treated in regard to their persons, property, rights and interest in any manner less favourable than the nationals of any other country... [Any future diplomatic effort or] the eventual establishment of representation will, of course, depend upon the character and growth of American interests in the Arabian Kingdom” (Department of State 1932b: 49).*

Regardless of a lack of comprehensive protection from its parent government, the company continued to pursue for the oil concession in Saudi Arabia. The next section discusses the completion stage of the negotiations demonstrating the importance of welfare issues in the process of gaining the concession. In term of interactions between public and private actor, two main observations can be found

from the analysis in this section regarding the relationship between the oil company (SOCAL) and its parent government (US). First, the way in which SOCAL turn to the US government for help as they began pursuing for the oil concession in Saudi Arabia is a prime example of the vital role that the imperialist power played in dealing with the oil concession at the time. It illustrates that despite the resources and expertise of the oil company, they have to rely heavily on the diplomatic effort by the state and the legal framework of the international tribunal. Second, the situation highlights the ever presence of public/private cooperation between the government and oil company in the process of gaining the concession. This, I would argue, led to the transfer of authority which eventually results in the emergence of private authority.

### **3.7 The Concession Agreement: National Welfare and Emerging forms of “Moral Authority”**

Through authority given by the Saudi government, Karl Twitchell and John Philby (the King’s principal advisers) entered talks with SOCAL with a good understanding of the Kingdom’s financial situations, the possibility of discovering oil and most importantly the King’s intentions. Such knowledge, I would argue, helped the oil company in the process of gaining the concession tremendously. According to the record from the Department of State, Washington, the negotiating team planned to leave for Jeddah during the first part of January, 1933. And as part of the negotiations with the Arabian government regarding a concession for the development of petroleum resources, it was recorded that Twitchell suggested that “it would be desirable for him to have some sort of an official document indicating that the Standard Oil Company of California was an American corporation of good reputation” (Department of State 1932a: 59). As a result, the Department of State requested the authorities of the State of Delaware, in which state the company is incorporated, to issue a certificate in proper form for use in Arabia. This assistance which signifies support of the US government again highlights public/private cooperation between the two actors.

As the negotiation started, a coordinated plan was now worked out to achieve the concession. The first move was that Lloyd N. Hamilton of SOCAL's legal staff would go to Jiddah to negotiate with 'Abd Allah Al Sulaiman Al Hamdan, the King's finance minister. In this, he would be accompanied by Twitchell as technical advisor. Philby, on retainer to SOCAL, would remain in the background as advisor to both parties (Anderson 1984). From the observation, the negotiation highlighted the company's understanding of the situation through the help of John Philby by taking on board what the Sheikh had expressed on the issue of his people's welfare and adjusts their strategies to accommodate such view. This is reflected in the company's mandate not only at the time but for years to come:

*“In order to do its job well in a distant part of the world, the company [now Aramco] had to become a grocer, road builder, druggist, chef, school teacher, corner movie-house operator, dry cleaner, laundryman, industrial gas manufacturer and community planner, it got thoroughly involved in around-the-world purchasing ... [the best practice], the company believed, was to encourage the development of a rational Saudi economy” (Arabian American Oil Company 1962).*

Acknowledging the continuing importance of the welfare for the nation would be a central theme of the negotiation and the company aimed to make sure that they could provide it. As noted in the mandate, in encouraging the development of a rational Saudi economy, the company tends to get heavily involved in social welfare practices and activities of the country. This is a further example of John Allen's sense of a kind of governing from a distance, but one that pays close attention to culture and ways of life (Allen 2003).

From the outset, due not only to the Kingdom's financial difficulties but also the King's belief that there were no real minerals or oil to be found in his land, it was evident that a key element in the negotiations would be the amount of cash the companies were willing to pay up front for the concession rights. As the negotiation proceeded, it became clear again that the King's principal concern was the size of the cash advance that could be obtained against future royalties. Negotiations started on February 19, 1933 where in the first meeting in Jiddah, Lloyd N. Hamilton of SOCAL original offer was \$50,000 against the King's desire as Shaykh al-Sulayman

opened the negotiations by suggesting the equivalent of £100,000 in gold (about \$500,000) for the concession (Anderson 1984; Sampson 1975). After over three months of intense negotiations and hard bargaining between the two sides, an agreement was finally reached. Here, on May 29, 1933, Lloyd N. Hamilton of the Standard Oil Company of California (SOCAL) and ‘Abd Allah Al Sulayman Al Hamdan, finance minister of Saudi Arabia, signed an agreement giving SOCAL exclusive rights to extract petroleum from an area larger than the state of Texas, the eastern half of Saudi Arabia (Pledge et al. 1998). This historic signing is captured in the photograph below (Figure 3.3):

*Figure 3.3: His Excellency Shaikh ‘Abd Allah al-Sulayman, Saudi Finance Minister, and Mr. Lloyd N. Hamilton, Lawyer and Negotiator for Standard Oil of California (SOCAL), Sign the Concession Agreement, May 29, 1933, in Khuzam Palace in Jiddah*



Source: Kyle L. Pakka (2006: 5)

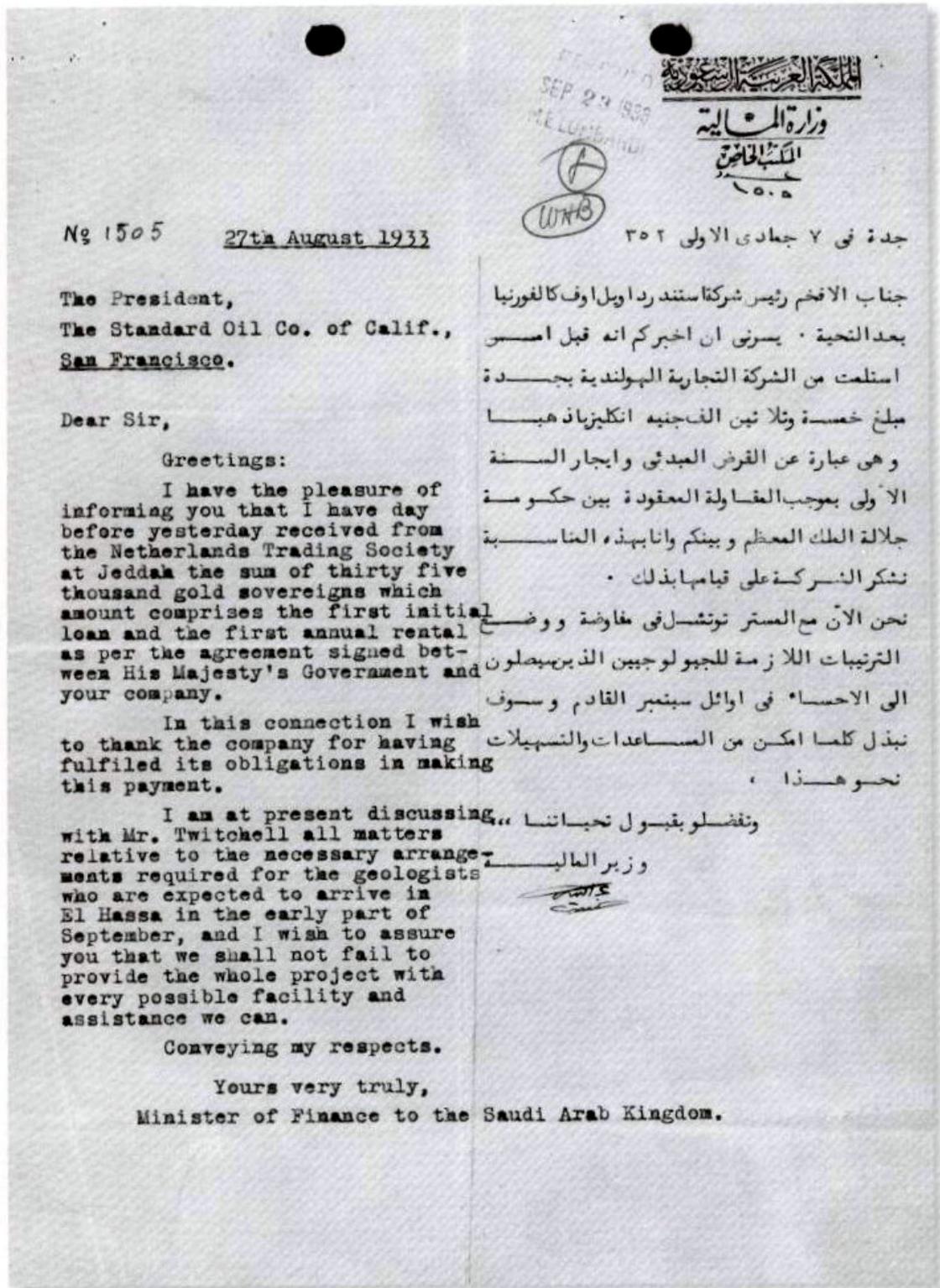
In return for signing the agreement, the King received an initial cash advance of £50,000 (immediate loan of £30,000 with another loan of £20,000 eighteenth months later), an annual rent of £5,000 – all in gold – until oil was discovered, a further cash advance of £100,000 after discovery, and royalties at the rate of 4 shillings per ton (\$0.10 a barrel in 1933) (Anderson 1984; Sampson 1975). Philby was rewarded with

a salary of £1,000 a year from SOCAL (Sampson 1975). Following the completion of the agreement, the Finance Minister, ‘Abd Allah Al Sulayman, began talks with Twitchell over arrangements on the arrival of the company’s geologists for the purpose of surveys and explorations of the Kingdom. Upon receiving the first initial payment, he also sent a letter dated August 27, 1933, to acknowledge receipt of the payment and to promise “every possible facility and assistance” for the geologist team in the search for oil (see Figure 3.4 for a copy of the letter in full):

*“I have the pleasure of informing you that I have day before yesterday received... the sum of thirty five thousand gold sovereigns... as per the agreement signed between His Majesty’s Government and your company... I wish to assure you that we shall not fail to provide every possible facility and assistance we can” (Ministry of Finance 1933).*

The promise of every possible facility and assistance that the minister of finance gave to the company here, as it turned out, would not only be in the form of physical assistance but also in the form of power and authority. What I mean by this is the power and authority that the Saudi government would be willing and promise to give to the oil company as means to achieve their ultimate goal, the prosperity of the country. This signifies the transfer of power from public to private actor giving private actor a more important role in the local and national community. According to Pamela Burke (1999), this is seen as a foundation which leads to private actor taking a “quasi-public” role in the society involving a higher level of control and regulatory power and authority in responsibilities traditionally associated with state/public such as political policy settings. Through their position here, the company led the country in both the development and maintenance of its oil market. From exploration, production, transportation and refining to distribution, they were at the forefront. As a result, the company had “market authority” in the form of regulatory power at their disposal. This situation I would argue reflects the view of Michael Webb who has argued that “public and private forms of market management can sometimes serve as substitutes for each other” (Webb 1999: 54). He explains that this is done through a private actor drawing on the legitimate authority that national governments have to develop rules for all actors in the market place.

Figure 3.4: Letter from Ministry of Finance, the Saudi Arab Kingdom to the President, the Standard Oil Company of California dated August 27, 1933



Source: Ministry of Finance to the Saudi Arab Kingdom (1933)

Apart from activities involving the operation in the oil market itself, SOCAL was also involved in activities such as providing for social services, health services and education, all of which again traditionally linked to state/public responsibilities (Burke 1999: 231). As mentioned (Section 3.3 and 3.5), this position would in turn contribute to the company being placed in the privileged position where the government have to rely on the oil company to carry out some of their own tasks and responsibilities. Thus, the influence of the company over the nation's social development would then gradually increase. In this, it is important to recognize that such an influential position gained from both sets of activities in oil and social development mentioned above cannot be achieved without the resource and expertise of the company.

The importance of expertise here does not only apply to this case. To many scholars such patterns also apply to the historical nature of the social development in undeveloped countries. For instance, in examining the role of expertise in the historical development of Egypt, Timothy Mitchell (2002: 50) argues that if rural society were to be developed, it required "the dynamic activity of technical development, which required the application of scientific and social scientific expertise". He goes on to argue that such projects "began to arrange the world as one in which science was opposed to nature and technical expertise claimed to overcome the obstacles to social improvement" (Mitchell 2002: 51). Therefore, I would concur with Mitchell and argue that it is this notion of technical expertise and social development that helps explain the reason behind the Saudi government's decision to allow the company to operate in their country. Again, this is in believing that knowledge and expertise would be the main ingredient in the solution for social welfare development.

With the interests of population welfare, economic competitiveness and growth of the nation as a whole, the process of gaining the concession agreement has seen the Saudi government yield a substantial amount of their domestic regulatory authority to private actors as they believed this to be beneficial to the nation. As already pointed out in the earlier parts of this section, this authority stems from the basic cooperation and support given by the Saudi government through the signing of the concession which then leads private authority being exercise through different

development projects alongside the main oil operation. Such authority when exercised represents a form of “moral authority” mainly because the activities and decisions that the company made through such authority would be seen by the population as authority which is exercised to better their welfare, hence to do good for the nation (Section 2.5.3). Ultimately therefore, the government hopes for better social well-being through cooperation with the oil company would not only aid the company in gaining the concession, it would also put them in a positive position with the locals when carrying out their tasks in the country for years and years to follow. The last section of the chapter here focuses on providing an example of social development projects as part of the analysis of private authority. In this, the section aims to demonstrate how this case study can help highlight the argument made by Lipschutz and Fogel (2002: 124) that it is possible to transfer “functional responsibility and authority” of state actor to private actor.

### **3.8 Social Development Projects: Exercise of Private Authority**

Although signed on May 29, the 1933 Saudi oil concession was made effective by publication in the official journal of the Saudi Arabian government on July 14. In November of the same year, the company was assigned to California Arabian Standard Oil Company (CASOC), a company owned and formed by SOCAL under the laws of Delaware. The company operated under that name for the next 10 years before changed on January 31, 1944, to the present name of Arabian American Oil Company (ARAMCO) (Lebkicher and Arabian American Oil Company 1952: 135). Oil was discovered in commercial quantities on October 16, 1938. In that year the company produced 495,135 barrels of crude oil (Ministry of Petroleum and Mineral Resources 1963: 8). The production then continued to increase and so does the royalty payment to the Saudi government. The following table (Table 3.1) shows the amounts of crude oil produced and the royalty payment annually from 1939 to 1949, obtained from a document produced by the Ministry of Petroleum and Mineral Resources Riyadh, Saudi Arabia (see Appendix 3.1 for the full statistical data up to 1990):

*Table 3.1: Amounts of crude oil produced and the royalty payment annually from 1939 to 1949*

<b>Year</b>	<b>Barrels of Crude Oil</b>	<b>Royalty Payment (\$)</b>
1939	3,933,902	3,212,565
1940	5,074,838	4,661,001
1941	4,310,110	3,448,571
1942	4,530,492	3,414,326
1943	4,868,184	1,317,520
1944	7,794,419	3,204,270
1945	21,310,996	3,618,170
1946	59,943,766	10,408,531
1947	89,851,646	22,341,998
1948	142,852,989	35,316,594
1949	174,008,629	39,831,089

Source: Ministry of Petroleum and Mineral Resources (1963: 8)

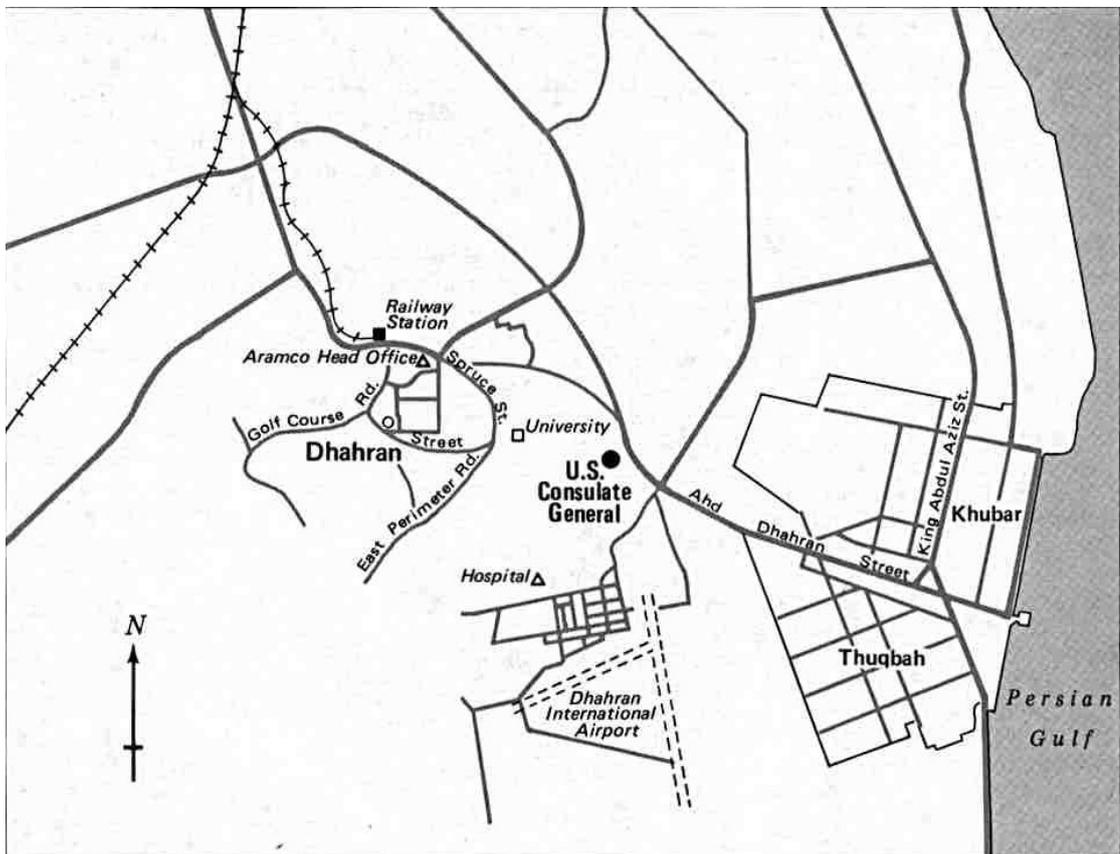
As a result of the continuous rise in oil income, Saudi Arabia's ever increasing reliance on its oil industry was clear. According to the Ministry of Petroleum and Mineral Resources, by 1946 the oil revenue exceeded other sources of government income such as the custom services or the pilgrimage (ibid.). The new found revenues were then utilized in many development projects originally laid down through cooperation with the oil company ever since the concession was signed. Here, the Ministry stated in their report of 1963:

*“it could be said that oil income has set the initiative for conceiving a wide plan of development in the future based on the expectation of a growing income from oil and whatever economic stability could be insured thereafter from this new flow of money” (ibid.: 13).*

This high expectation and reliance on oil revenue would ultimately result in the Saudi government giving more power and authority to the oil company in order to ensure steady growth of the country. This power and authority of the oil company as

discussed briefly earlier is also transferred through various development projects as the company gained more control over the overall social development. Some of the projects associated with the company exercising such private authority in its early days of operations in Dhahran (1934-1940) included the construction of hospitals and schools. Apart from these projects, as part of the strategy to build the first stabilization plant at Dhahran (Map 3.4), the company also installed electric power lines, telephone cables, water purification systems and sewer lines, all of which available for public as well as industrial use (Pledge et al. 1998: 9).

*Map 3.4: Dhahran*



Source: U.S. Department of State (1983)

Although the development projects discussed above only came about through the company’s objective to establish workable oil plant, it highlights the “social relationship” system adopted by the company. This system were not only tremendously beneficial to all of the population in the area, it in turns upgrade the

position of the company in the society giving them the role, crucial to the welfare of the local people living in the Dhahran area (Figure 3.5).

*Figure 3.5: Aerial View of Dhahran in 1948*

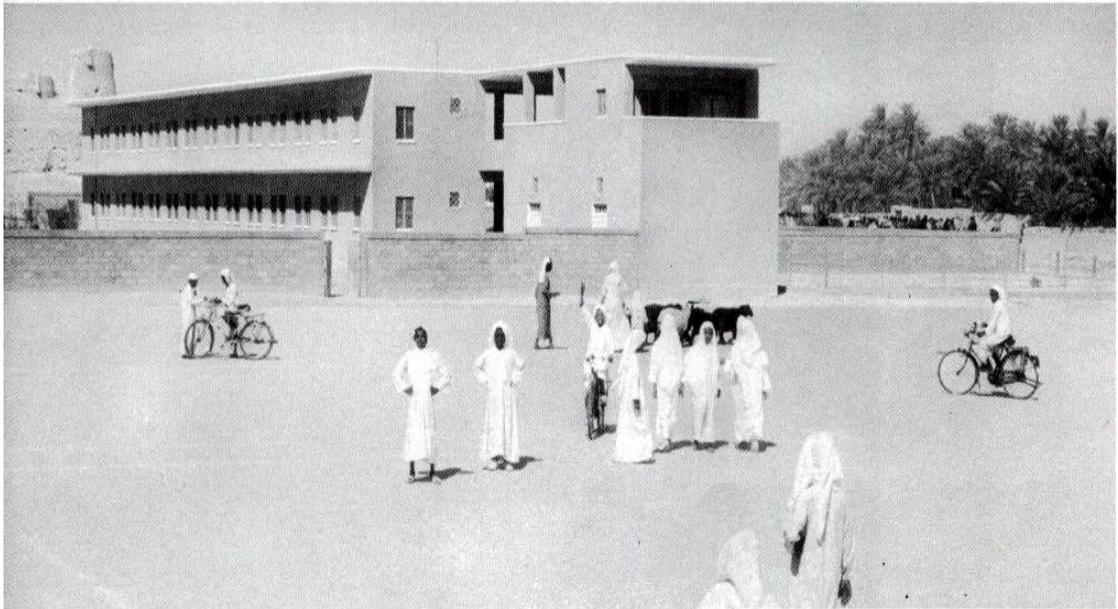


Source: Pledge et al. (1998: 52)

According to an annual report obtained from ARAMCO, the company assisted the government in “providing modern school facilities to meet the rapidly growing demand for [education in the country]” (Arabian American Oil Company 1957: 35). By 1960, ARAMCO has established of industrial training shops in all districts providing instruction in manual skills, three industrial training centres with classes in academic and practical studies, eight primary schools accommodating 2,100 pupils and ten elementary schools at the capacity of 300 pupils each (Arabian American Oil Company 1957, 1959, 1960). These schools were established and completed with full equipment before transferred to the Ministry of Education. The following two

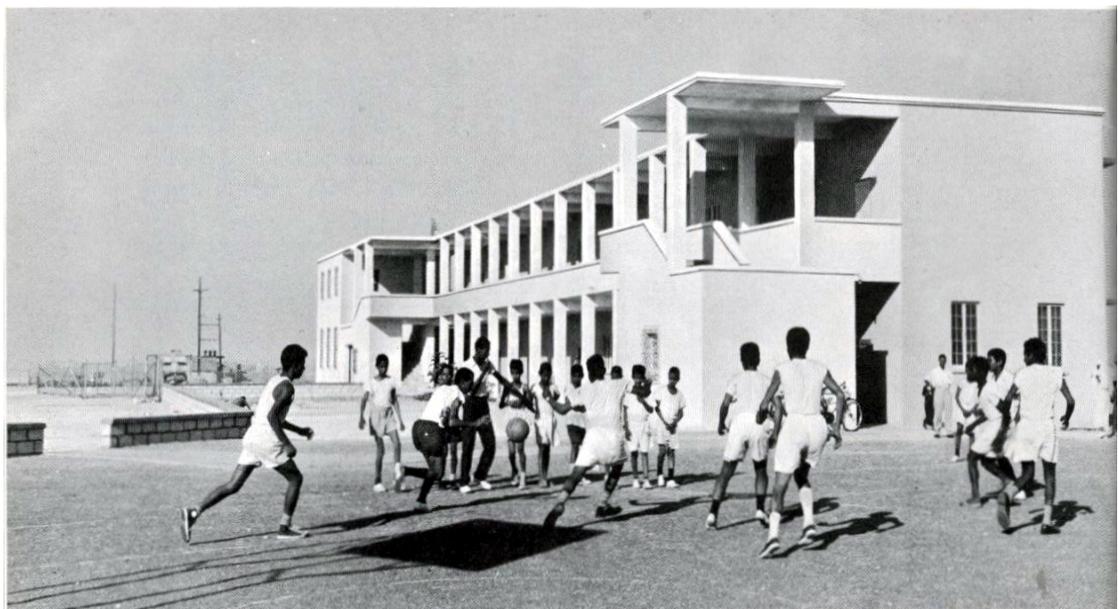
figures show primary (Figure 3.6) and elementary school (Figure 3.7) captured by the company in 1957 and 1959 respectively:

*Figure 3.6: The primary school at Hofuf*



Source: Arabian American Oil Company (1957: 35)

*Figure 3.7: The elementary school at Madinat Abqaiq*



Source: Arabian American Oil Company (1959: 26)

Despite the fact that some of these schools were built for the children of employees of ARAMCO, the schools were tremendously important to the general public of Saudi Arabia. In addition to building and equipping these schools, the company also contributed towards the operation and maintenance costs including salaries of teachers giving them a majority of the control over the school. Thus, the Ministry of Education often consulted the company when making policy on the operation, maintenance and development of the Saudi educational system. According to Timothy Mitchell (2002), the role of ARAMCO here represents the transformation of the expert into a spokesperson for the forces of development and the progress of modernity. This is in term of ARAMCO utilizing their technical expertise to overcome the difficulty in the local community development – as one of the examples of Mitchell’s world in which science was opposed to nature (Mitchell 2002).

Similar to the way in which ARAMCO contributed to the establishment of schools and educational system in Saudi Arabia, the company was also actively involved in the development of healthcare system in the country. To the King and government, health conditions of the Saudi people were vitally important to the development of the Kingdom as a whole. As a result, they cooperated with the company to introduce European medicine and import foreign Arab and European doctors to improve and modernize their healthcare system (Ministry of Petroleum and Mineral Resources 1963). In the first few decades of the operation, the company managed to build hospitals in three districts, Abqaiq, Dhahran and Ras Tanura (Arabian American Oil Company 1959). As well as this, the company also built a number of clinics in outlying areas of their operations (Arabian American Oil Company 1958).

Apart from establishing hospitals and clinics and assisting the government in bringing foreign doctors and European medicine into the country, the company also carried out many preventive and curative medical programs which not only served their staff but also general public. As a result, the role of the company in the development and maintenance of Saudi healthcare system was crucial and somewhat indispensable. According to the Ministry of Petroleum and Mineral Resources (1963: 2), contributions of the company through such preventive medical steps were vital in fighting diseases so that no epidemic could occur in the future. Here, the health

centre at Dhahran which is also headquarters of both preventive and curative medicine programs is captured below:

*Figure 3.8: Aerial view of the Health Centre at Dhahran*



Source: Arabian American Oil Company (1958: 33)

The contribution made by the company in various social development projects in this section not only helps the company to strengthen its relationship with the government but also the local community. This, I would argue, is part of the strategy of the company to ensure that their operations run smoothly. Although their real intention is still questionable, their practices consequently led to them gaining a great degree of power and authority in the country's activities, both in terms of economic and social development. Based on the observation in this case, this power and authority are functions of the ability to provide resources and expertise (see Section 2.5.3 and 3.3). According to Ronit and Schneider (1999), this is partly the reason why it is important to include private actors in public policy making process. To them, as it is increasingly difficult to distinguish public from private resources in "agenda-based policy communities or knowledge-based epistemic communities [which are] grounded in beliefs, ideas, norms, values and interests" (Ronit et al. 1999: 12), it would be futile to ignore the expertise outside the administration of the

state. Thus, the resource and expertise are major factors in the process that contributed to the emergence of private authority in this case.

### **3.9 Conclusion**

The main objective of this chapter is to better understand the nature of private authority through examinations of the 1933 Saudi oil concession between the Saudi government and Standard Oil of California. After re-visiting the concept of private authority with the focus firmly on the oil industry, it was found that public/private interactions, particularly those involved with economic coordination in the international oil industry, were vital to the emergence of private authority. In this, the practices and activities of each individual in the process of such interactions were identified as the source of numerous moments of authorization. Due to the fact that these practices and activities heavily linked to the structure of the oil market, my main argument was that the analysis of the structure of the oil industry will help us better understand how private authority emerges.

The structure that was seen to make some contributions toward the understanding of private authority was one in the institutional and administrative sense. This can be viewed as the rule and regulation provided by both governments and multinational companies. Although this is the case, the investigation of the overall evolution of the oil industry in relation to political and economic considerations was found to be more useful. In this, it highlighted the fact that there has been a change in the distribution of political power both among and within states in term of their actions that altered authorization, power and control of the oil industry on the international stage. As it turned out, this find also coincides with the analysis of the 1933 oil concession agreement confirming that shifts or changes of authorization started much earlier than contemporary scholars suspected.

One of the major events which contributed to the early shifts or changes of authorization was the First World War. It demonstrated the military and naval importance of oil and provided platform that saw major powers compete for oil concessions. This has not only given us great insight into the inter-related struggles

between major actors within the scene but also captured the early signs of the emerging historical relationships between public and private identities, hence the emergence of new modes of authority.

The case study has revealed one of the interesting features in the relationship between public and private identities. This is in the fact that such relationship relies on cooperation based on interests. For instance, Eastern and General Syndicate Limited (EGS) only requested support from the British government when found out that they needed the British approval before signing the Bahrain concession and the British government only provided support to EGS when promised financial and strategic gains. This is however not always the case as public-private relationship can also establish from cooperation that does not rely on specified interests such as cooperation for the development of social welfare as discussed in the chapter.

Through public and private interactions, number of practices and activities of individual actors in the case study have highlighted how it was possible for oil companies to gain privileged positions that allow them the power and authority to set agendas in the industry matter. For instance, it was found that the ability of Standard Oil Company of California (SOCAL) in accessing governmental decision-makers by virtue of their relationships with the government officials, position within the industry and expertise, they were able to influence how standards and regulations was set allowing them a great degree of authority in the industry and its market, hence “market authority”.

The implementation periods of the concession have indicated that private authority can also be gained through “social relationship” projects. As the company carried out their oil development tasks, by adopting “social relationship” strategy which saw them providing and maintaining public services in the form of social welfare to the local people, they in turn gained tremendous support from the government and local community. Such support resulted in the company again gaining a privileged position allowing them to take charge both in advising and leading the government in carrying out any social development projects in the country. This privileged position does not only help the company to operate smoothly, it also gave the

company further authority that they already gained from controlling the industry, hence what Biersteker and Hall call “moral authority”.

Although it can be argued that the oil company such as EGS and SOCAL gained their authority mainly through their positions and abilities, the authoritative role of the government was also pivotal. This is mainly because such authority would only exist if there is a “transfer” of authority from public to private actors. For instance, the government sometime delegates their responsibilities to private actors when facing difficulty in carrying out certain tasks or in the case where more benefits could be gained from the service of private actors. Thus, despite the clear importance of private actors within the oil industry, it would be unwise to neglect the role that public actors play. Therefore, the analysis of private authority should not only involve private actors but also public/private relationships.

## **CHAPTER 4: Private Authority through Public and Private Relations: the Oil Majors and the Iranian Oil Crisis, 1951 – 53**

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Taking the theoretical framework which highlighted different forms of “private authority”, this chapter continues in the quest to explore the phenomenon of the emergence of private authority. In term of the main analysis, the chapter employs the oil consortium agreement of the post-Iranian oil industry nationalization of the early 1950s as a case study. The purpose here is to demonstrate that careful analysis of the role of both state and non-state actors, in this case the Iranian, American, British government and the Oil Majors, can provide further insights into how different modes of private authority can emerge. In this, the chapter focuses on the Oil Majors and their relationships with the state-actors (Iran, US and Britain) where the analysis heavily revolves around the Iranian-British relations. The analysis of this chapter however will not simply be on the question of how the oil company exercises their power and authority but also on how the Iranian oil crisis and the oil consortium agreement which came out of it highlight and develop the argument that the process of resolving the crisis and gaining the oil concession authorizes new modes of private authority.

There are three main reasons that the case study is particularly significant to the thesis. First, among the oil producers in the Middle East, Iran is second only to Saudi Arabia making the oil sector a major part in shaping its social, political and economic life. Second, besides its mineral resources, Iran, by virtue of its population, its economic capacity, its military capabilities and its geographic location plays a major role in regional and international politics (Alavi 1978). Third, Iran has a long and fruitful oil history as it was the first country in the Middle East that granted the first oil concession to a foreign subject and the first to nationalize its oil industry. Considering these factors, the case study would allow us to not only investigate the development in the role of private or non-state actors in the public domain both in the national and international arena, but also to examine the historical emergence in patterns of public-private authority. Together with this, the case study would also act as a platform for us to analyse public-private interactions that lead to the exercise of various modes of private authority.

With Iran's status in the world oil market, it is not surprising to find that many have regarded Iran's 1953 oil crisis leading to the oil agreement as one of the most significant events in the history of world oil industry (Al-Chalabi 1980). In the context of this thesis, I would argue that the nationalization of Iran's oil industry in the early 1950s represents major historical moments of struggles for authorization, power and control. Thus, the analysis of such events would help us to better understand the development of public and private authority. Since it is not easy to differentiate all actors involved in the Iranian oil crisis and the agreement that followed, the chapter concentrates on analyzing the relationship between four main public and private identities, namely, the Iranian government, the American government, the British government and the Oil Majors. Such analysis will again focus entirely on the emerging historical relationships between the named actors so that different modes of private authority can be better recognized.

Throughout the chapter, I will discuss the activities and negotiations between actors mentioned above during the oil crisis and consortium agreement that followed. The discussion draws upon several sources including historical documents from various archives in the UK. One particular archive which has been used extensively for the primary data in this chapter is the British Petroleum (BP) Archive at the University of Warwick, Coventry. Notes of personal conversation with the BP archive officer also contribute to some discussions in the chapter. Apart from this, other archives have also been used to provide necessary information which could not be obtained from the BP Archive itself. These archives include the India Office Records at the British Library Research Archive in St Pancras (London) and the Foreign Office Records and the Colonial Office Records at the Public Record Office (PRO) situated in the National Archive in Kew, London. Given the complex nature of the event, concentrating on the roles of each actor during the agreement will be the main focus here. As the oil crisis and the agreement are littered with both formal and informal negotiations, arrangements and talks between different actors, analysing both would again help us to better understand how these actors gain and practice authority, power and control through the oil crisis and oil concession agreement.

The chapter is organized into three parts. First, taking on the historical perspectives, I try to locate private authority in the Iranian oil industry by situating the oil company in the historical context of the period of 1950-1954 when the Iranian oil crisis occurred. The chapter then looks at a range of different events which deemed to be the cause of the oil crisis that led to the oil consortium agreement. Concentrating on the Iranian government and British Petroleum as the main actors in the analysis, the latter sections of the chapter present in-depth discussions of practices and activities of each actor involved in the process of gaining and implementing the oil consortium agreement where I argue various forms of private authority emerge.

#### **4.1 Oil Relations: Iran and the Oil Majors**

The period of World War II gave rise to major forces in the internal politics of Iran. These forces were in the form of the huge influence of Britain and Russia in the internal affairs in the country where oil became a major issue (Fesharaki 1976). The Allied occupation of the country in 1941 also brought disorganization and paralysis of the state. For these reasons, Iranian politics in the post-war era once more became the arena of “open interaction between different social forces [resulting in much instability in the country]” (Karshenas 1990: 83). To many spectators, at the time “Iran was regarded as a hunting ground for oil concessions” (Elm 1992: 44), especially for the British and Russians. As also discussed in Chapter 3, 5 and 6, such activities carried out by the British and Russians were the standard practice by European powers that signifies the process of imperial expansion and overseas colonization at the time. As part of the analysis of public/private relationship, this process is to be investigated further in the latter sections of this chapter.

In response to the powerful position of the British and Russians in Iran and being aware of British ambitions to control Iran’s oil, the Iranian government asked the US government for assistance. This is to ensure that their country would be evacuated after the war. As a result, Roosevelt, Churchill and Stalin met in Tehran in 1943 to resolve the situation (ibid.) and jointly declared that “the Government of the United States of America, the Union of Soviet Social Republics and the United Kingdom are at one with the Government of Iran in their desire for the maintenance of the

independence, sovereignty and territorial integrity of Iran” (Churchill et al. 1984: 512). The resentment however was to deepen when the three nations refused to implement their own treaty when the war ended in 1945 (Alavi 1978: 66). As a result, the next decade or so not only saw the three imperialists compete for political influence in the region but also for the natural resources available within the area. In this, R. K. Ramazani, once a consultant to the White House, the Department of State, the Defense Department and the Treasury Department (AIC 2005), clearly highlighted the growing competition between the US and USSR in trying to obtain an Iranian oil concession in his book “The United States and Iran – the patterns of influence”. Here, Ramazani wrote:

*“While the US companies were involved in negotiations with the Iranian government [for the oil concessions], a Soviet delegation suddenly appeared on the scene [asking] the Shah for exclusive rights... for petroleum exploration...”* (Ramazani 1982: 9-12).

Given the extent of the situation, there were nationalist uprisings amongst the Iranians which resulted in Iran’s effort to nationalise its oil industry (Fesharaki 1976: 42). Fundamentally, what was at stake was national sovereignty that has been hindered by four decades of abuse and exploitation at the hands of the British (Stork 1973a). The movement for the nationalization of oil began to materialize in 1944 when the Iranian government began negotiations with the AIOC for a new oil concession (Alavi 1978). This new negotiation for Iranian oil was full of difficulty as the US and British governments’ reliance on oil imports after the war brought fierce competition and dispute. The letter dated May 21, 1944 from Winston Churchill to Franklin Roosevelt evidently showed the conflict of interests for Iran’s oil between the two nations:

*“As regards Persia... it is true that we, like the United States, are inevitably concerned about our strategic supplies of oil, the more so because, unlike the United States, we have no metropolitan sources... From the security point of view... we have the same wartime interest as the United States in the safety of the trans-Persian supply route to Russia... For all these reasons we want a strong and friendly Government in Persia, and have no wish to see the establishment of foreign ‘zones of*

*influence'. In short, we are certainly no less interested than the United States in encouraging Persian independence, political efficiency and national reform" (Churchill 1944: 141).*

The Oil Majors or "Seven Sisters"<sup>14</sup> further complicated the oil relations during the negotiation for a new oil concession as they were vitally important to both governments. In this, the US National Security Council (NSC) of 1953 described the American oil majors as being instruments of American foreign policy (Marsh 2007) and the Head of Britain's Oil Desk at the Economic Relations Department explained how Britain's balance of payments depended upon the British oil industry (UKNA 1950). This, I would argue, happened due to two main reasons. First, due to the fact that the British and American government needs the knowledge and expertise of the oil company to have any chance of gaining control over Persian oil (Section 2.5.1 and 2.5.3). Second, this was also a consequence of the fact that the company needs their parent governments' diplomatic support in order to gain the oil concession.

Apart from the commercial value of oil, to the British and American government, oil was also a valuable commodity for expansion and strengthening their military and naval forces throughout the world. As knowledge and expertise to acquire, control and utilize vital natural resources of the world was one of the key to the imperialist expansion and strengthening, the major powers put great efforts into cooperating with the oil company to gain such knowledge and expertise. In this case, this is particularly to do with abilities to explore, extract, refine and transport oil from commercial, military and naval usage. So, when considering that the British and Americans carried out the oil venture as part of their imperialist expansion and strengthening strategies, it can be argued that the oil company holds a vitally important position in their parent governments' ambitions to control oil in the region. Thus, this observation confirms an argument made by Joe Painter that "in [the] process of imperial expansion and overseas colonization, knowledge was of vital importance" (Painter 1995: 106-07). European expansion in particular, Painter asserts, "depended upon knowledge" (ibid.: 107). Such a situation meant that

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<sup>14</sup> The Seven Sisters of the petroleum industry is a term coined by an Italian entrepreneur, Enrico Mattei, that refers to seven oil companies that dominated mid 20th century oil production, refining, and distribution.

“government and oil industry were locked in a symbiotic relationship” that often saw the Oil Majors and their national governments working together in the quest for competitive advantage (Marsh 2007: 26). The British government’s support of AIOC’s effort in gaining the oil concession in Iran as a pertinent example of this statement will be discussed in more detail later in the chapter. Alongside this, the role of expertise and knowledge in such a relationship will also be investigated further.

Although in principle, the Russians, the Americans and the British promised “mutual cooperation in the region” (Alavi 1978: 66), the power rivalry between the three nations was clear. For this reason, the post-1945 period saw each nation begin to use their influence through various internal forces to get new concessions or expand existing ones. It is during this period, I would argue, that we witness the early development in the role of the oil company as part of strategies employed by the major powers to gain control over Iranian oil. With a long established historical influence in Iran, the British were in a much better position than the Americans. However, this did not stop the Americans as they continued to intervene when the US oil company Socony-Vacuum tried to break into the British-owned AIOC’s concession with Iran (Shirkat-i et al. 1954). These inter-related struggles between the British and American governments and the oil companies will provide a platform for the analysis of different forms of private authority in the next sections of this chapter.

#### **4.2 The D’Arcy Concession: Market Authority through Public Involvement**

The struggles between the actors during post-1945 era in Iran mentioned in the above section did not solely start out of the war. Prior to this period at the turn of 20<sup>th</sup> Century, political rivalry between Russia and Britain was intense to say the least. Thus, in order to better understand how these struggles affect the emergence and operation of private authority, it is important to investigate them in historical context. In this, starting from the very first oil interest in Iran, this section examines how various struggles established, progressed and influenced the development of oil industry in Iran.

Although Persia (later to change its name to “Iran”) has an illustrious history, it was a relatively weak and underdeveloped country in the nineteenth and twentieth centuries. Russia’s relentless search for an outlet to the open seas led to various wars in Persia which eventually destroyed the Persian military power and paved the way for ever-increasing Russian influence (Odell 1979). The King of Persia, who was always reluctant to allow any foreign influences into his country, clearly disapproved of the situation and publicly questioned the motive of the imperialist powers. According to Cecil Spring-Rice<sup>15</sup>, a diplomatic agent in Tehran at the time, the King reportedly said that “Russia does not want Persia herself, she want to prevent other people from taking her” (Spring-Rice 1901: 1). However, despite this intention and the Russian influence, as political rivalry between Russia and Britain intensified, Persia became a part of British strategic planning, hence the escalation of British involvement in Persia in the mid 20<sup>th</sup> Century. In this, British policy and involvement in Persia at the time was based on four points of view: first, their maritime power and position in the region; second, their political and economic affairs with Russia; third, their cooperation with Russia to maintain peace in the region; and fourth, their influence in the development of Persia’s oil industry (Stork 1973b, 1973a).

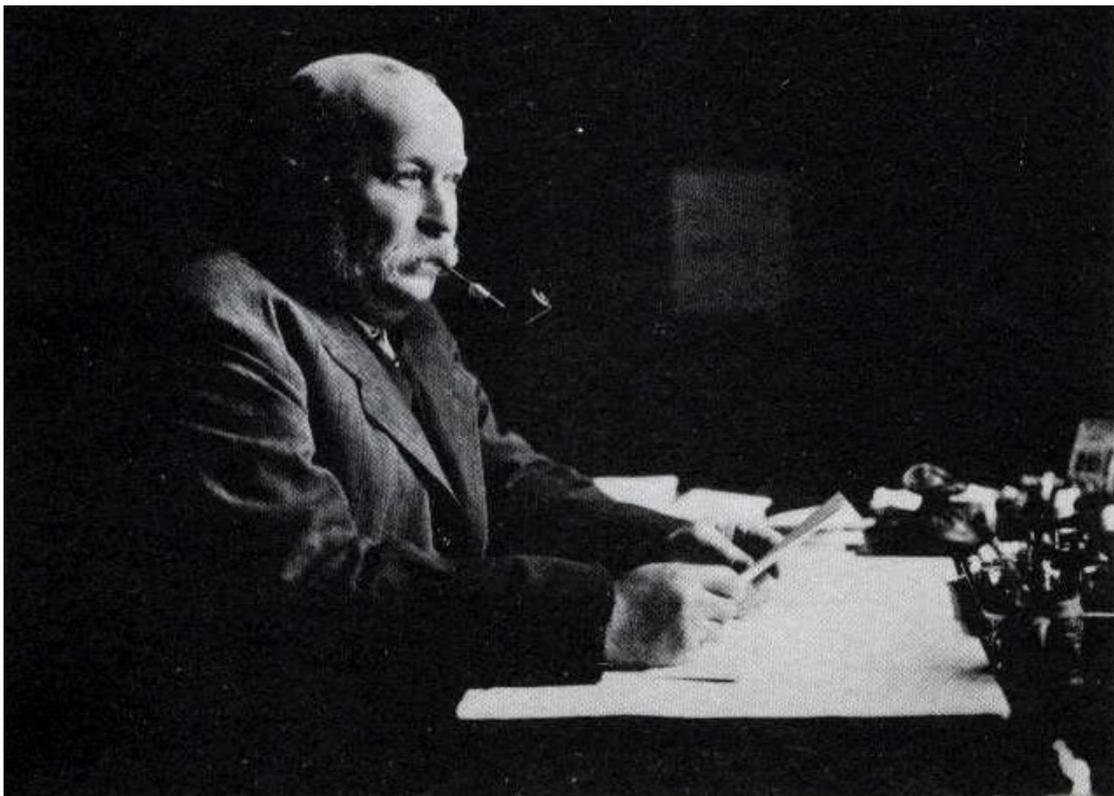
As it turned out, British policy and involvement in the country would not only affect the development of Persia’s oil industry but the development of its political and social life as a whole. According to Klaus Dodds (2005), such political and social influence is a direct result of “cultural imperialism” where the imperialist and their “cultural practices and values” can tremendously affect the way in which the country under their control develop and operate (Dodds 2005: 174). Concur with this view, I would argue that the influence of colonialism can also plays a hugely important role in the way in which public/private power and authority under discussions emerge and operate (Section 2.6.2).

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<sup>15</sup> Sir Cecil Spring-Rice (1859-1918) was a British diplomat who served as a British Ambassador to the United States, 1912-1918.

The discovery of oil in Persia in the early 1900s was one of the main turning points in British policy toward Persia. For the first time, the British strategic considerations in the region saw commercial interests as their top priority (Marsh 2007). Leading to the discovery, in 1892, the French geological magazine *Annales des Mines* published a report on the prospects of oil discovery in Persia (Alavi 1978: 29). This report was based on the investigations of a French government scientific mission which had been sent to Persia in the early 1890s. This prospect of finding oil however did not interest potential investors until 1900 when the Director-General of Persian Customs, Antoine Ketabji-Khan, brought the matter to the attention of the British financiers, William Knox D'Arcy<sup>16</sup> (Elwell-Sutton 1955; Ferrier and Bamberg 1982). In this, a captured image of him working on his desk in 1901 is shown in Figure 4.1 below.

*Figure 4.1: William Knox D'Arcy c.1901*



Source: Ferrier and Bamberg (1982: ii)

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<sup>16</sup> William Knox D'Arcy (1849-1917) was a solicitor, born in Devon. He held principal interest in Mount Morgan gold-mine, Queensland, Australia. On the 28<sup>th</sup> of May 1901, he was granted oil concession by Persian Government. As a result, he formed First Exploration Company on the 21<sup>st</sup> of May 1903, following by BOC the Concessions Syndicate Limited on the 5<sup>th</sup> of May 1905. Toward the end of his life, he was a director of BOC and APOC, 1909-1917 (see Figure 4.1).

As the political and economic climate of Persia at the time was dominated by corruption, deceit, and decay, D'Arcy believed that negotiations with Persia would bring few threats to his potential investment (Fesharaki 1976). With a favourable socio-political environment and suitable geological conditions in the south and southwest of Persia, D'Arcy sent Alfred Marriott, a cousin of his secretary and confidential adviser, to Persia early in 1901 to negotiate for a concession (Longhurst 1959: 19).

As the negotiation process began, the British interest in Iran's oil was made clear when the British Minister in Tehran, Sir Arthur Hardinge<sup>17</sup>, was instructed to do all he could to secure an oil concession for D'Arcy (Ferrier and Bamberg 1982; Fesharaki 1976). This move by the British government highlights their awareness of the positive political and economic implications which were likely to arise from gaining the oil concession (Stocking 1971: 9). On his effort to help D'Arcy to obtain the concession, Sir Hardinge noted:

*“The first important duty which confronted me a few months after my arrival at Tehran was that of securing a British Company an important concession of Persian oil-fields... Sir Henry Wolff, [former British minister to Tehran], wrote a letter of introduction... explain to me fully the character and objects of his mission... Its main end... was to win the goodwill of the Persian government by assigning shares in the proposed development of the rich oil-fields believed to exist in Western Persia”*(Hardinge 1900: 9).

The efforts of the British government and Sir Wolff finally paid off, it ensured the success of D'Arcy and the concession was finally signed on May 28, 1901 (Longhurst 1959: 19). The concession gave D'Arcy a sixty-year exclusive privilege to “search for, obtain, exploit, develop, render suitable for trade, refine and market natural gas petroleum throughout the country except five Northern provinces [of Azerbaijan, Gilan, Mazandaran, Astarabad and Khurasan]” (Alavi 1978: 33). Although no one could be certain about the degree of difficulties that the oil

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<sup>17</sup> Rt. Hon. Sir Arthur Hardinge (1859-1933) was a British Minister at Tehran, 1900-05; Belgium, 1906-11; Portugal 1911-13; and a British Ambassador to Spain, 1913-19.

company may face in oil exploration and whether any commercial amount of oil would be found, it was certain that through the concession the oil company had gained power and authority over the country's natural resources. Such influence would also lead to the company taking a role that was heavily involved in the political, economic and social development of Iran (Section 2.3 and 2.5). Thus, the signing of the concession here further demonstrates that "private authority" can emerge from the process of gaining oil concessions. Example of this can also be seen in the detail of the concession agreement itself. For instance, in June 1901, a month after the original concession was granted (ibid.: 34), the Shah issued a royal decree to be added to the original concession clearly highlighting the power and authority that Mr. D'Arcy had gained from the concession:

*"Pursuant to the concession granted to Mr. William Knox D'Arcy, as a result of the particularly friendly relation which unites powerful Great Britain and Persia, it is accorded and guaranteed to the Engineer William D'Arcy, and to all his heirs and assigns and friends, full powers and unlimited liberty for a period of sixty years to probe, pierce and drill at their will, the depths of Persian soil; in consequence of which all the subsoil products wrought of him without exception will remain the property of D'Arcy. We declare that all the officials of this blessed kingdom and our heirs and successors will do their best to help and assist the honourable D'Arcy, who enjoys the favour of our splendid court" (India Office 1901).*

Apart from highlighting the powers and authority of Mr. D'Arcy in the concession, the royal decree also provides a prime example of the important role that the parent government played. Here, it confirms the argument made earlier in the chapter that the oil company needs their parent governments' diplomatic support in order to successfully gain the oil concession (Section 4.1). Thus, the friendly relations between Great Britain and Persia mentioned in the royal decree in this case, I would argue, is the key to the process that led to the authority being gained by a private actor (Mr. D'Arcy) as discussed. So, although on the surface, it can be concluded that private actors (in this case the oil company) held all of the power and authority from gaining the concession relating to oil operations, in reality however things are much more complex. This complexity is due to many conditions attached in the concession as part of their parent government's diplomatic strategies. For instance,

the exclusion of five Northern provinces in the agreement stated in Article 6 of the agreement reflects the inter-related struggles not only between Persia, Britain and Russia but also public and private actors. Such restriction is seen as a political tool to avoid offending Russia; Persia's northern neighbour which looked upon the north of Persia as part of its sphere of influence in the same way that Britain saw southern Persia as falling under its sway (Ferrier and Bamberg 1982).

In short, it can be argued that although the concession belonged to the oil company which they themselves arguably held full control of, its parent government, "the British", had an undeniable influence. Evidently, the British government's influential role is not only limited to the process that the oil company goes through to gain the oil concession, but also covered the process in which the oil company exercise them. Thus, it can be said that Britain's roles in the process of gaining and implementing the oil concession raises further questions about the line that we could draw between public and private authority. That is, private authority that the oil company exercises and the public authority that the government exercises. As I mainly concentrate in this chapter on the emergence of private authority which the oil company exercised, this question will be addressed in Chapter 7 of the thesis.

### **4.3 Operational Companies: Governance and Control**

After having conducted explorations, hired drillers, and imported drilling equipment and technical and domestic supplies essential to drilling operations, the First Exploration Company (FEC) was formed in May 1903 with a capital of £600,000 in shares of £1 each (Stocking 1971: 11). Through D'Arcy's concession, the company was given authority to operate in an area of 500,000 square miles which is an area larger than that of France, Great Britain, and Germany put together. Although the company had many resources, they still needed to work closely with the government in order to operate effectively. Under the terms of the concession, the central government in Tehran was responsible for protecting the companies' operations including its equipment and workforces. This was however impossible due to the weakness in infrastructure of the government together with the ongoing problem of corruption (Longrigg 1954). Instead, the company had to turn to Bakhtiari tribesmen,

who had immense powers in the southern province of Khuzestan where they were operating at the time, to protect the operation from raids (Stocking 1971: 12). To achieve this, D’Arcy formed the Bakhtiari Oil Company, with a capital of £400,000 in £1 shares, presenting three percent of the shares to the tribal chiefs and agreeing to pay the tribesmen £2,000 per annum for safeguarding the drilling equipment and supplies, and another £1,000 per annum for safeguarding the pipelines (Ghosh 1960).

The move by the company to take responsibility for their own security by hiring Bakhtiari tribesmen signifies the change in the oil company behaviour from one of private actor to public actor. This is because domestic security is somewhat traditionally considered to be an activity under the umbrella of the state’s responsibility. Thus, as the Iranian government abdicated its responsibilities for protecting the oil operations to the oil company, they in turn transferred part of their authority to the oil company (Section 2.5.2 and 2.7). Consequently, the company has not only gained authority from taking control of such responsibilities, they also gain great influence over the government on any issues involving security of the oil operations. Similar to Pamela Burke’s analysis of the behaviour of oil MNE’s in Ecuador (1999), I would argue the company’s behaviour in taking over public responsibility, such as security in this case, change their nature from private to public actors in the Iranian landscape as a whole.

D’Arcy’s FEC spent five years and nearly a quarter of a million pounds before any oil in commercial quantities was found in southern Persia. Facing difficulty in raising capital in London, he decided to sell the company and the concession to foreign interests (Farmanfarmaian 1955). Although, the Concessions Syndicate Limited was formed in 1905 to offer D’Arcy a position as a director with adequate capital to continue, operations in Persia still failed and the decision to cease work came shortly after. In 1909, the Anglo-Persian Company (APOC) was established to take over the oil operations in Persia; this was to be the beginning of the oil boom era in Persia (Elwell-Sutton 1955). The company’s initial capital was £2 million with a large percentage coming from the Burmah Oil Company (Stocking 1971: 7). In this, APOC did not take over the operation of the FEC and the Bakhtiari Oil Company but these two companies were maintained as subsidiaries, concerned with

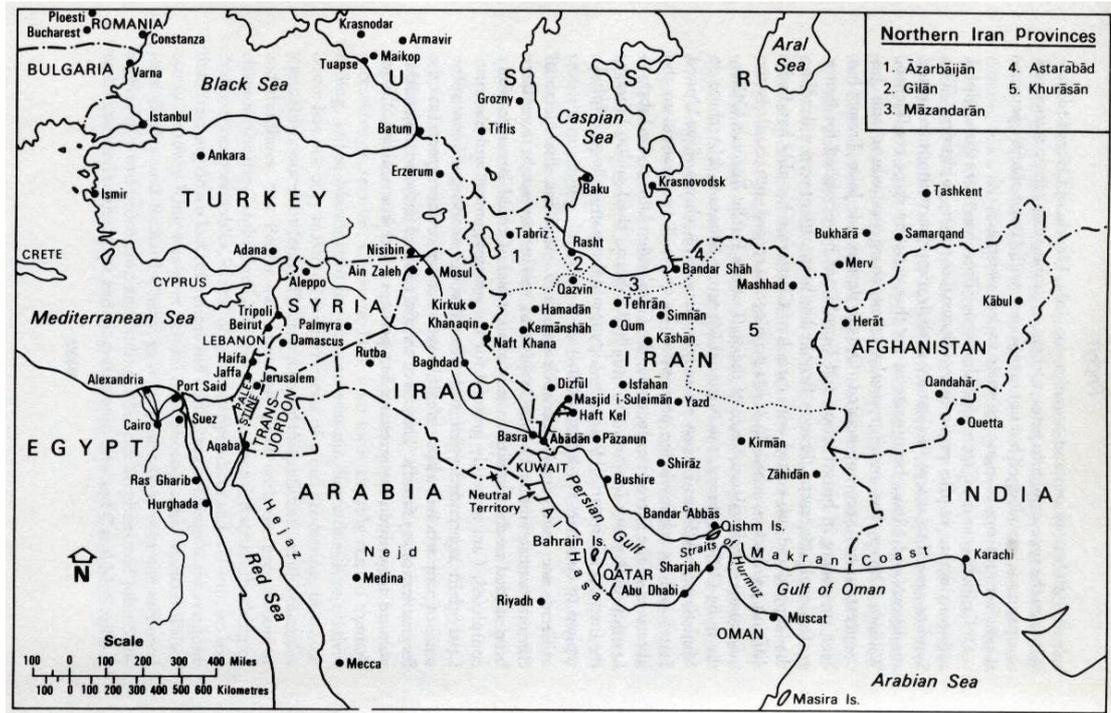
the producing activities of APOC. Although APOC continued its operations with success in the south of Iran, expanding its activities required capital and this is where heavy influence from the British government began to tell (Farmanfarmaian 1955). Through the efforts of Winston Churchill, who was appointed the First Lord of Admiralty in 1911, the British decided to buy a controlling interest in the Anglo-Persian Oil Company in 1914 (Turner 1978: 25). By that time, the capital of the company was raised from £2 million to £4.2 million, with the British government investing £2.2 million in the company. The share of the government was then around 52.5 %, with Burmah Oil Company retaining 22.5%, and the public 25% (Fesharaki 1976). According to Winston Churchill, the British involvement in the concession saved the government £40 million between 1914 and 1923 (Churchill 1923: 134).

The company continued operating smoothly until the early 1930s when the international financial crisis caused a sharp decline in royalties to the Persian government (Bamberg 2000b: 12). This led to feelings of frustration which resulted in the Shah issuing a warning to APOC about the possibility of the cancellation of the concession. APOC and the British government however refused to recognize the Shah's right to cancel the concession and the dispute carried onto the Council of the League of Nations in 1932. This event not only demonstrated the power and authority of the producer country but also the "market authority" and "epistemic authority" of the oil company where one was using its "natural resources" and the other its "expertise and knowledge" as a bargaining tool against each other.

While sharp contrasts of opinions between the two sides were clear and both asserted their strongest assets against each other, the council announced a decision and a compromise was reached in 1933. The revised agreement required APOC to develop the Naft-o-Shah oilfield on the Iran-Iraq border (see Map 4.1), west of Kermanshah, and to process its output for Iran's domestic consumption. The company also agreed to make efforts to increase their Persian staff and place some Persian nationals in technical and commercial positions. In return, the government exempted the company from all taxes except those stipulated in the concession, and agreed not to annul or alter the concession "either by general or special legislation in the future, or by administrative measures, or any other act of the executive authorities" (Fesharaki 1976: 14). Two years later, the official name of the country was to change from

Persia to Iran, in compliance with this, the company changed its name to the Anglo-Iranian Oil Company (AIOC) (Parra 2003). In this, Map 4.1 below shows the Middle East region redrawn with Persia as Iran, three years before it officially changed its name.

*Map 4.1: Map of Middle East in 1932*



Source: Ferrier and Bamberg (1982: xxvi)

The involvement from Britain in the concession as highlighted in this section has again underscored the complexity in the relationship between the private and public identity. With the British government injecting £2.2 million raising their shares of the company to 52.5%, it is difficult to say whether the oil company’s identity is truly private and whether their authority can truly be defined as a form of “private authority”. Although this is a difficult question to address, I see the argument proposed by Saskia Sassen that “the spheres of influence or authority of these actors are seen as distinct and mutually exclusive” (Sassen 2003: 242) to be plausible. This explains that although “the process is clearly producing a very partial but significant form of authority... it is neither fully private nor fully public” (ibid.: 243). Taking this view, it is therefore possible to argue that activities, practices and decisions

made by the oil company in exploring and extracting oil through the concession can be considered to be “private authority”. This is however with a certain influence from public. To explore this concept further, the next few sections analyze the nationalization of the Iranian oil industry and the consortium agreement of 1953.

#### **4.4 Nationalization of the Iranian Oil Industry: Principle of National Sovereignty**

After the early 1930s disputes over concession royalties, the struggles and tensions between the Iranian government, the British government and the Anglo-Iranian Oil Company continued. This was made worse by the events of World War II in 1939 which left many nations in economic ruin and increased their poverty (Adelman 1972). From then on, the Iranian government became increasingly suspect of the position that AIOC and the British government were in, both in terms of political domination and economic domination over Iran’s oil industry. In this, they brought up numerous issues, one of which is that oil revenues gained from exploiting their lands have been unfairly shared. The Iranian government pointed out that in the period 1944-1950, compared to their royalties that had only increased fourfold, the oil company had grown noticeably richer with AIOC’s profits rising tenfold (Bamberg 2000b). Thus, it was hardly a surprise when many outsiders began to argue that the British and the oil company were exploiting Iran’s national treasures. Consequently, at the Tehran Conference of 1943 the Iranian government discussed the degree of influence which the parent government had over the Oil Major in their operation in the country (Ghosh 1960). It was clear that the Iranian government was no longer satisfied with the situation and the involvement of the British government in their oil industry at the time.

Shortly after the conference, the Iranian government began the process of nationalising its oil industry with several meetings and draft proposals. The first real move however did not begin until early 1947 when the social unrest among Iranian people led to demands that the government introduce a brief which finally became law in October 1947 (Elm 1992). This law proposed by the people included a ban on the award of any oil concession by the government without prior approval by the

Majlis. With the law in effect, the Majlis first instructed the government to investigate and renegotiate the term of the AIOC concession (Sampson 1975). Not only does this renegotiation illustrate the way in which the Iranian government under Majlis's authority tried to better their economic position, it also highlights an effort by the public actor to gain back some of the authority. This is the authority that I would argue they themselves had given away to private actors when the concession was agreed in the first place. This conflict of interests between public and private actors clearly highlights public/private "power and authority" struggles that exist within the oil industry (Section 2.6).

To renegotiate the terms of the AIOC concession, the Iranian government looked to other concessions in the region as a comparison. At the time, the Arabian-American Oil Company (ARAMCO) had agreed to sign a 50-50 principle of profit sharing agreement with the Saudi Arabian government which further built hostility toward AIOC (Ferrier and Bamberg 1982). This has meant that AIOC had no choice but to come up with some similar arrangements for the Iranian government. Razmara promised both the British ambassador and AIOC that he would get the Supplemental Agreement approved, however there were several conditions attached, most of which had no financial implication. Firstly, with AIOC's ability to provide training, they were asked to organize a ten year program to train Iranians for technical jobs which would result in a reduction of British and Indian staff. Secondly, to try to gain back some control over how much oil was exported Iran asked to be allowed to examine the company's books and to check its oil exports at ports to settle allegations that it was exporting more oil than it claimed (Fesharaki 1976). With this, the Iranian government also asked to be informed of the quantity and proof of Iranian oil products sold to the British Admiralty and others at high discounts. Finally, AIOC was asked to make advance payments, on the basis of the draft Supplemental Agreement. These payments aimed to help implement Iran's development plan and to encourage the Majlis to ratify the agreement (Elm 1992).

After a difficult period of negotiations, although the Prime Minister, Razmara, the British ambassador and AIOC finally agreed to go ahead with the agreement on the basis mentioned, by that time it was too late. On February 19, 1951, Dr. Mossadegh, head of the Oil Committee, submitted a draft project for the nationalization of the oil

industry and all of the AIOC properties in Iran (Stocking 1971: 147). This did not come as a surprise to the outside world considering the fact that in the 1933 oil concession there was a large gap between AIOC's cost of producing oil and the selling price, hence the large profits this brought to the company compared to the relatively small returns it yielded to the government. Also, due to the nature of the concession at the time, the relationship between the government and the oil major was somewhat "oil major dominant" with most of the authority involving the oil issues belonging to the oil company (Turner 1978). Despite this, pointing out the importance of the oil company in the operation, Razmara strongly opposed the nationalization project saying that nationalization was not feasible owing to Iran's lack of skills, financial resources and shipping facilities (Fesharaki 1976: 43). He also argued that nationalization was not legally possible, nor was it wise to antagonize the British government.

Although not everyone agreed with his views, in the context of the theoretical framework, Razmara's remarks highlight the importance of resources (especially finance and expertise) in the oil concession. Thus, I would argue that the ability to provide appropriate resources was the main asset of the oil company making it possible for them to gain the oil concession (see Section 2.5.1 and 2.5.3). Taking the view that the process of gaining the oil concession ultimately authorizes private authority, this confirms the argument made by Cutler, Haufler and Porter (1999) that "private authority" exists when the private actors have the ability to use their resources to exercise power legitimately. Also, as Razmara's views clearly indicate that Iran had been relying on the company's resources for the development of its oil industry, I would concur with Stephen Kobrin's suggestion that states only allow private authority to arise when there are benefits and efficiencies to be gained (Kobrin 2002).

Given the overall political and economic situation of Iran that saw continual corruptions in the government and wide-spread poverty among its people, it was clear that Razmara was somewhat right in giving warning to his countrymen about the difficulty in nationalization. His remarks were however considered humiliating and brought a backlash that strengthened support for nationalization. Four days later, on March 7, 1951, when Razmara was attending a mosque for a memorial service, he

was assassinated (Farmanfarmaian 1955: 48). From then on, with the appointment of Dr. Mossadegh as Prime Minister on April 28, 1951, the process of nationalization moved rapidly. Under his leadership, the Prime Minister stood firm on the principle of national sovereignty where he highlighted Iran's rights to reclaim control over its principal source of wealth which he argued others had alienated. In this, he sent the leader of his country's delegation, Nasrollah Entezam, to address the General Assembly of the United Nations on the issue of the nationalization (Stocking 1971):

*“As you know, oil is the main source of our national wealth. It is therefore proper that we can countenance its exploitation only as a way of ensuring the general welfare of our people” (U.N. 1951: 344)<sup>18</sup>.*

To many outsiders, Razmara's assassination and Mossadegh's principle of nationalization symbolized the magnitude of Iranian sentiments against AIOC and for nationalization. This is where the oil question was one on which Iranians from different backgrounds could unite to protest against the old order. It was clear at the time that AIOC “had become somewhat the personification of the exploitative imperialism of the British Empire and the source of social and economic injustice” (Elm 1992: 81). As the dispute went on, it was becoming increasingly apparent that the British and Iranians were on different wavelengths. On the one hand, the British government and the oil company tended to lay emphasis on the technical and economic problems in running the Iranian oil industry saying that the efficiency of the operation depended on managerial, commercial and technical ability and experience. On the other hand, for Mossadegh and his supporters, nationalization had a political importance.

As the disputes grew stronger between the two governments, the big multinational oil companies, the “Oil Majors” or “Seven Sisters”, played an ever increasing role in oil relations at the time. They were vitally important to not only the British but also the American government's strategies in dealing with the Iranian government. This has meant that both American and British national security policymakers of the time regarded the oil majors as effectively being instruments of their foreign policy

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<sup>18</sup> Nasrollah Entezam in addressing the General Assembly of the United Nations

(Marsh 2007). In truth, the British and Americans were determined to protect Iranian oil supplies with great interest in their relationship with AIOC as the company's operations in Iran were enormously important to both country's economic situation, military strategy, overseas influence and prestige (ibid.: 26). To put it simply, the British and American government found AIOC to be indispensable in addressing the oil crisis and particularly useful in managing their bilateral relationship.

Historically, although the Iranian nationalization of its oil industry was not the first of its kind with "Mexican Eagle"<sup>19</sup> nationalized before World War II (Elwell-Sutton 1955: 296), it was certainly one of the most important. At the time of the nationalization, Iran was the leading oil producer in the Middle East and the fourth largest in the world, following the United States, Venezuela, and the USSR. This has meant that the nationalization of AIOC's properties created huge turmoil within the international oil industry. One of the most concerning issues which arisen from the Iranian oil nationalization dispute, as concentrated in this chapter here, was the fact that the relationship between the oil majors and the host governments had transformed dramatically. As a result of this transformation, I argue that despite agreeing to negotiate for the new concession agreement, the host governments would end-up demanding more share of the profit and be less willing to give away the control, power and authority over their own national resources.

Evidently, the change discussed above in turn led to great fears among the oil majors and the parent governments of further nationalization in the Middle East oil industry. According to many experts, this can be seen as the main motive for the solidarity of the American companies with AIOC refusing to handle the nationalized Iranian oil (Ghosh 1960). In fact, the nationalization not only stopped the development of the Iranian oil industry but it also virtually stopped oil production in the country too. This joint decision to turn their back on Iranian oil evidently shows the power of cooperation among the oil companies in international oil markets (Section 2.4.2). In this, Ronit and Schneider (1999) argues that cooperation or interactions of individuals through the marketplace with loose consensus agreements can represent

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<sup>19</sup> Mexican Eagle Oil Company Limited was nationalized by the Mexican government along with several US oil companies in the 1930's.

governance and authority mechanisms. Thus, the power and authority generated through cooperation to boycott the Iranian oil as discussed above demonstrates the very existence of private authority in the form of “market authority” and its influence on the policy process in the international oil industry where the impact of the oil company on the Iranian economy is widely acknowledged.

Apart from the cooperation among the oil majors to stop any production involving oil from Iran, with full intention to back the oil company, Britain boycotted Iranian oil and urged all Western oil companies not to purchase oil from Iran and not to provide Iran with oil experts. If this was not damaging enough to the Iranian oil industry, the nationalized Iranian oil industry also lacked the legal right to sell abroad the oil produced from negotiated concessions made previously between its government and AIOC. Together with this, the AIOC’s threat to take legal action against any entity who bought or used its oil during that time ensures that over such a period no Iranian oil could have moved onto world markets (Odell 1975). Arguably, the boycott of Iranian oil shows the true extent of how the oil companies were increasingly able to coordinate their authority on a global scale (Section 2.4.1), hence creating a much more complex character of political authority (Bull et al. 2004).

#### **4.5 Towards the Oil Agreement: Concessionary Interests**

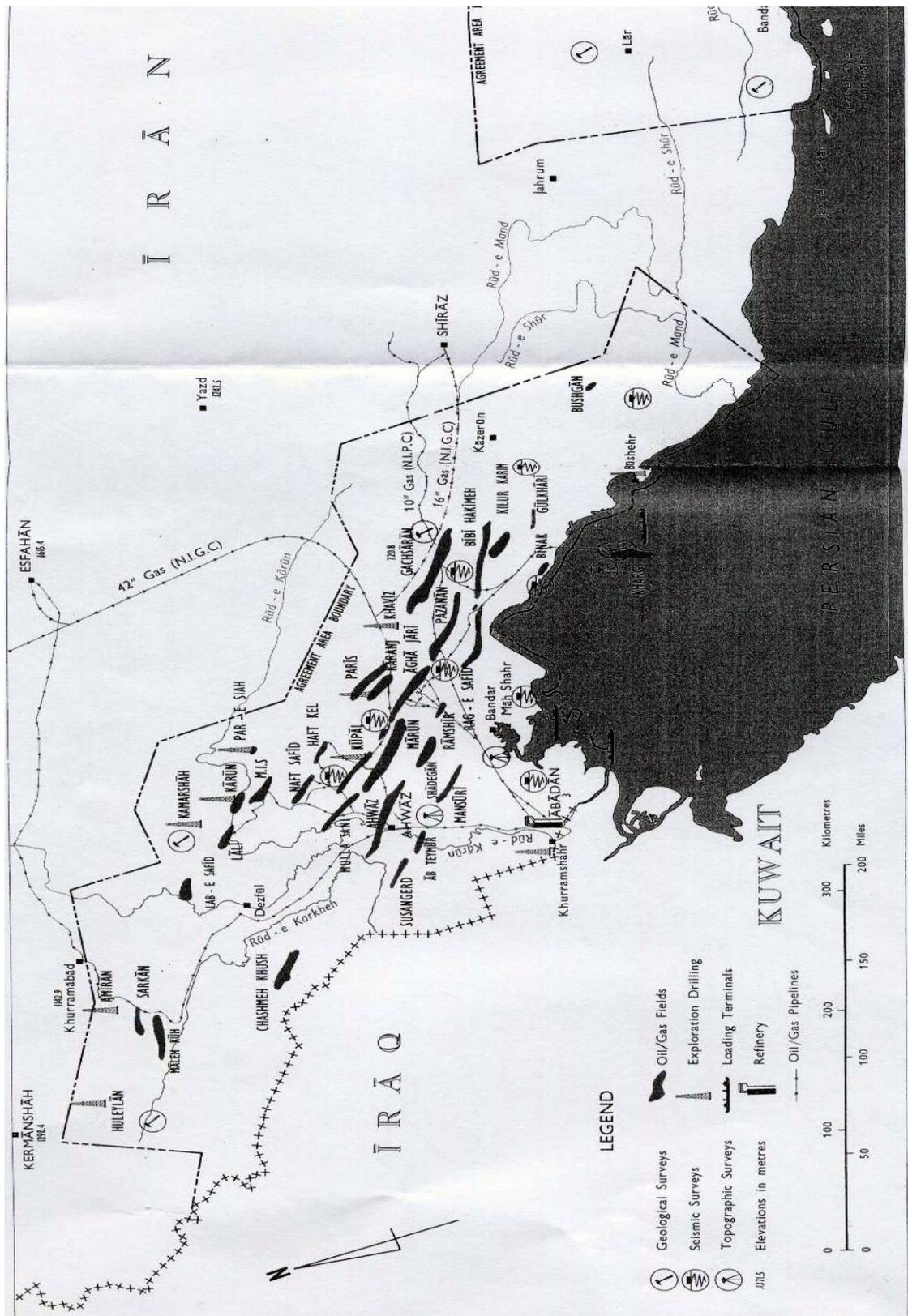
After three years of political and economic turmoil in Iran including several negotiations, the way became clear for an agreement with a consortium of international majors (Fesharaki 1976). Although the nationalization was still strong in the mind of the Iranian government, giving way to commercial needs and concerns about human welfare, the agreement between the oil companies and Iran was finally reached in 1954. As a result, a new type of relationship between government and companies was established (Stork 1973b, 1973a).

Problems in the negotiation with the Iranian government began with the fact that although AIOC and the British government agreed to improve the current agreement and recognize the principle of nationalization, they were not prepared to “grant more

than they had previously offered” (Fesharaki 1976: 50). Their main concern was to make sure that the nationalization would not affect their commercial rights and privileges, hence the authority that they previously enjoyed. In the search for a settlement agreement, the pattern of international diplomacy assumed the familiar form of a triangular relationship between Britain, the US and Iran, with the US acting as an intermediary, trying to form a bridge between the other two countries. The situation however worried the British government and the company as they shared the view that an intermediary, which meant in effect the US, might take the initiative to negotiate a settlement on terms which did not fully uphold the British interests (Elm 1992). Despite this, acting as an intermediary in the negotiations between the three countries, Hebert Hoover Junior (son of the former US president) following an appointment as special adviser to Dulles on the Iranian oil problem, went to Iran to try to resolve the dispute. Discussing the agreement with Hoover, the view of the board from the company throughout the negotiations was that, since they were the party most hurt from the turmoil, as far as it was possible, they should be returned to their former position of pre-eminence in the Iranian oil industry (Karshenas 1990). Having to think not only of the economic aspects of a settlement, but also of public sentiment and political considerations, this view however was not shared by the Iranian government (Ferrier and Bamberg 1982). As time went on, it was clear to the Iranian government that they had to come to some sort of agreement to set their country on its feet again.

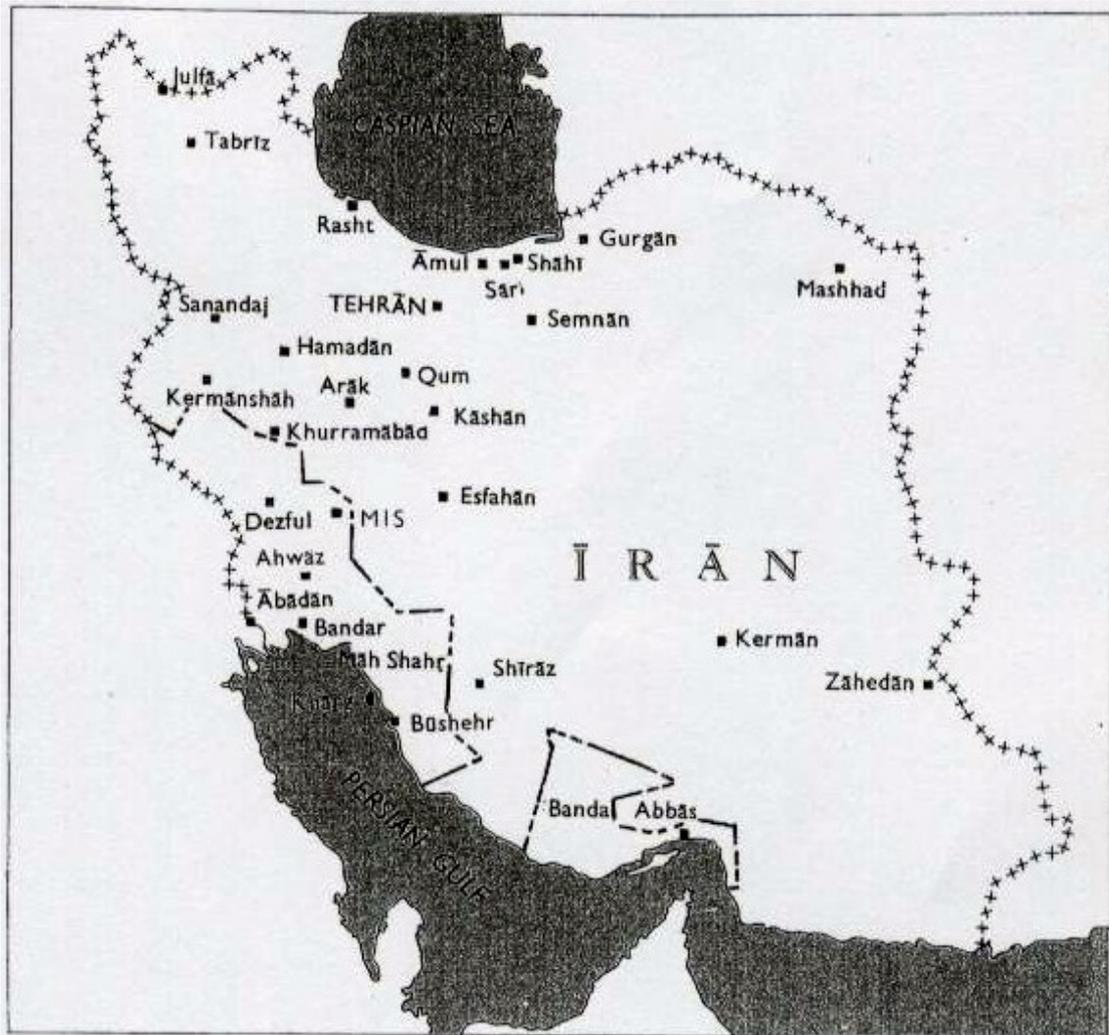
Due to the fact that the oil industry was heavily in debt, £31 million to be precise, at the time of the dispute, the government really had no choice in the matter and eventually forced into action. In this, they invited foreign experts to Persia to begin a survey in an effort to sort out an agreement (Longhurst 1959). In February 1954, twenty experts representing the Consortium left for Persia to survey the oil fields and Abadan (Fesharaki 1976). The eight members from the Oil Majors found Abadan and the oilfields on the whole in good condition. The negotiations between the consortium and the Iran government then began in April 1954. The agreement was announced in August of the same year (Stocking 1971), covering large areas in various Western provinces of Iran (Map 4.2 and 4.3). In this, Map 4.2 below clearly illustrates the success of this agreement with more than 25 oil/gas fields discovered in the oil agreement area in just over a decade later.

Map 4.2: The Iranian oil agreement area pre-1970



Source: Iranian Oil Exploration and Producing Company (1970)

*Map 4.3: Map of Iran and its various provinces in 1970*



Source: Iranian Oil Exploration and Producing Company (1970)

With AIOC so dominant within the Iranian economy that it was effectively a “state within a state” (Marsh 2007: 28), the main concern that Iran had during the negotiation toward completing the agreement was that they were not happy to leave their oil in the hands of a single company (AIOC). As a result, Iran had objectives to push for the consortium agreement placing Iranian oil into the hands of several participants. In the end, the consortium agreement was reached with participation from a number of European and American oil companies, precisely 16 in all. Although this may seem on the surface to have met Iran’s objectives, a closer look at the consortium participants reveals that there was very little change as 95 percent of Iranian oil was controlled by the seven majors with 40 percent being AIOC (now BP), the sole owner of the older concession (Ferrier and Bamberg 1982).

Additionally, the consortium agreement was also by no means significantly different from the agreements signed by other majors with other oil-producing countries of the world. In this, it upheld the principle of national ownership of the Iranian oil industry, but put the company's nationalised assets under the management of a new consortium of international oil companies. The consortium would be responsible in all operations and buying output with each member company in the consortium market its own share of the oil through its own marketing system. Thus, the main advantage of the nationalization was only that it solidified the 50-50 profit-sharing principles where profits from the operations would be divided equally among members and the Iranian government (Bamberg 2000b). This eventually became the norm in concession agreements in the Middle East as mentioned (Section 4.4).

Although the nationalization and the new consortium agreement that came out of it did help Iran in gaining back some of its oil revenues that they argued had been taken by foreign oil companies, it did not help them in gaining back authority in the industry as they wished. As explained above, this is mainly due to the nature of the new consortium agreement which was by no means significantly different from the agreements of the past. In this, the detail of the consortium agreement offers its own evidence on the matter. For instance, on the rights, power and control over the concession agreement, according to the documentation of the negotiations around the consortium agreement dated April 24, 1954, it was agreed that "the government of Iran would have control over all the non-basic activities and the consortium would [again] have control over all the basic activities such as exploration and production" (BP 1954a: 3).

Further, according to the publicity document of the agreement, it was clear that the company would still maintain most of the authority in the oil operation as the Iranian government stated that "[they] have delegated to the companies the necessary powers for the duration of the agreement" (BP 1954b: 2). Thus, from this evidence, it can be said that despite the trouble of going through the process of nationalization and reaching a new consortium agreement, in the end, the Iranian government had gained very little from the dispute. So, although the NIOC (National Iranian Oil Company) was the owner of the oil industry in the south of the country, the

consortium exercising effective managerial control over operations – the ownership with the NIOC was really no more than a token gesture of the nationalization (Bamberg 2000b). Hence, the agreement contains provisions recognizing that the entire assets belong to Iran, but they also reserve the right of foreign companies to exploit them.

All in all, the consortium agreement “gave to the Iranians the shadow of what they sought, while retaining for the British the substance of what they had” (Stocking 1971: 157). To many experts, the terms of the consortium agreement have generally been seen as a defeat for Iran. Particularly, in term of its attempt to challenge the existing order in which the international oil industry was controlled by the major oil company operating a concessionary system (Sampson 1975). As argued throughout the thesis, this concessionary system which sees so much cooperation both between firms and between governments and firms therefore acts as a platform for the oil majors to gain, control, and exercise their authority leading to what we argue here to be the emergence of “private authority” (see Section 2.4.2 and 4.4). To put it simply, by conceding the principle of the nationalization without any effective national control, the consortium agreement to the oil majors still preserved the status quo. As a result, did not fundamentally alter the relationship between them and Iran or the authority that they had previously (Bamberg 2000a). Although this may be the case and it was clear that the concessionary system was very much intact, the central elements of the company changed dramatically. The transformation was mainly a shift away from the previous concentration on Iran towards a more multinational orientation with more inter-firm cooperation (Section 2.4.2).

As will be examined further in the last few sections of this chapter, the cooperation among the consortium members in their operation in Iran would ultimately lead to the construction of the institutional, legal and regulatory framework for the governance of their affairs in the Iranian oil industry. In this, scholars such as Katsikas argued that such a process would ultimately shape political and economic affairs (Katsikas 2004). For this very reason, I would argue that the cooperation among the consortium members leads to the emergence of private authority in the Iranian oil market.

#### **4.6 Community Programme: the Operation of Moral Authority**

The completion of the consortium agreement made the oil operation which was previously paralysed active again. Although the new consortium agreement meant that AIOC had in effect given up 60 per cent of its interest in Iran, they were still very much in charge with the majority of shares. As a result, AIOC was still very much in control of the operations. The company began their normal operation by establishing operating companies. Through these operating companies, the company was again able to gain authority which they previously had in the old concession. The following extract from the agreement document between the consortium and the government highlights how the Iranian government allowed the operating companies such authority:

*“[the government has] agreed that the constitution and internal management, rights, powers and obligations of the operating companies shall be provided as in [the consortium agreement]” (BP 1954c: 1).*

These rights, powers and obligations were first and foremost to do with the operational activities of the oil company. In this, the activities to be carried out by the oil company in the oil venture were clearly stated in article 4 of the agreement document “Functions, Rights, Powers and Obligations of Operating Companies”:

*“the operating companies shall have for the term of this agreement all rights and powers to carry out, within the area and on behalf of Iran and NIOC as hereinafter in this article set for [the functions such as] to explore for; to drill for; to produce, extract and take crude oil and natural gas; to operate; to process oil; to store and distribute; to transport and deliver; to refine and process; etc.” (BP 1954d: 6).*

Although most of the agreement paper concentrates on the operational side, following detailed research, it was found that to run the oil operation smoothly, the oil company had to do a lot more than just finding, processing and marketing oil. According to a report commissioned by the company entitled “Education in Iran”

under the section “Standard of Education and Public Health,” the company had to maintain and improve not only the oil industry, but also the community and the environment of where they were operating (BP 1954h). In this, the agreement document “The AIOC in Iran” highlights the non-oil activities that made a major contribution toward the overall development in the local community by stating that “the AIOC’s operations in Iran also include providing schools, training, housing, medical and other services” (BP 1951a: 1). Thus, in relation to the responsibility to successfully develop the Iranian oil industry, the activities carried out by the company at the time can be categorized in two main ways. Firstly, on the part of the oil industry where the weak infrastructure and the problem of corruption in the government meant that the oil company’s presence was seen to be vital to the stability of the oil industry (Longrigg 1954). Secondly, on the part of the community where the oil company’s ability to generate wealth and development through their financial resources and expertise was seen to be crucial to the oil operation (see Section 2.4.1).

Considering the fact that public/private relationships play a vital factor in the success of the operation, the activities mentioned can be seen as part of the strategy employed by the company to try to establish a positive relationship with Iran and its communities. Through such relationships with the community, I would argue, the company could improve its position in gaining private authority which would help them to operate more smoothly. Here, Cutler et al. mention that “authority need not be accorded exclusively to public actors” (Cutler et al. 1999: 4). Biersteker and Hall draw further on this point by saying that “as long as there is consent and social recognition, [private actors] can be accorded the rights, the legitimacy, and the responsibilities of an authority” (Biersteker and Hall 2002: 8) (Section 2.3.2 and 2.5.1).

As suggested by Ole Sending and Iver Neuman (2006: 653), the increasing role of these non-state actors in the public process which involves public/private interaction would result in the “diffusion or decentralization of political authority that is traditionally exercised by the state actor”. This effectively gives these non-state actors more power and authority in the overall processes and networks of governance. Thus, it is not surprising to find that many manifestos, drafts,

documents and memos contain company statements indicating the aim to strengthen their role in the public process, particularly in their relationships with the state. In this, the company's policy at the time encompasses "many commercial, technical, political and community relationship [projects]" (BP 1997a: 7). The report of the company in 1954 even stated that "mapping and improving relationships with government and communities is given highest priority at group level" (BP 1954b: 2). Such an aim to map and improve their relationships with government and communities can also be seen in the company's policy to provide many public services including works concerned with public welfare.

From interviews with archive staff at the BP Archive Centre (BP, personal communication, 2008), it was explained that although there was no published or official social report in the 1950s similar to those produced by oil companies today, there was certainly clear evidence that the company indeed carried out many social projects and programmes, some of which include building schools and hospitals. For instance, the main mission statement of 1954 showed that following the signing of the consortium agreement, the company first began working with the community to improve many facilities and services in the local area (BP 1954e). In carrying out these social development activities, a report entitled "Statement for the Press" further highlights the importance of public/private relationships in the company's operations. In this, the company tried to encourage positive relationships between all sides and pleaded for support from the Iranian government and general public in the following statement:

*"[The company] believes that the oil industry [of Iran] will continue to advance in great stride during the next decade... [The agreement] interests the whole national and demands the support and help of every section of public. We are [also] working closely with the understanding and the support of the government of Iran" (ibid.: 3).*

As it turned out, this support was particularly important to the overall success of the company's operations in Iran. For this very reason, it is hardly a surprise to find that the company of today tends to focus heavily on their social performance. This is reflected in many of their reports, memos, statements etc. during the past few

decades. For example, the social statement of 1997 highlights the understanding of the issue by stating: “[the company] recognizes that the social performance defined as the way they behave, the impact of their operations on people and overall contribution to society” (BP 1997a). Interviews with archive staff further revealed that the development programme that AIOC carried out during the 1950s concession included a strategy to provide public services (BP, personal communication, 2008). In this, one of the documents published by the company “The AIOC in Iran – Growth and Composition of its Workforce” at the time clearly stated the fact that many of practices and activities of the company were not only oil-related, but also involved public services which saw the company working “to provide schools, training, housing, medical and other services” (BP 1951a: 1).

Although the discussion above has suggested that most of the social development projects were carried out in the 1950s during the implementation period of the consortium agreement, other historical evidence has suggested otherwise. In fact, the evidence has highlighted AIOC stepping into social development projects as part of relationship building programmes with the local community much earlier than suspected. For example, according to documentation recording education progress in Iran entitled “Confidential Letter Book,” in 1923 the company was involved in the Iranian educational system for the first time when they opened a primary school at Abadan, and took over and reorganized one at Ahwaz (BP 1924). They developed a fruitful relationship with Stuart College at Isfahan by providing teachers and equipment to educate Iranian boys in English.

Moreover, the company also gave away scholarships for many local boys, providing their parents agreed they would return to work with the company on completion of their studies. By the early 1930s, there were five schools at company centres including primary schools at Abadan, a primary and a middle school at Ahwaz, and two primary schools at Fields (BP 1951b). These schools were not only important to the company as the way to educate their staff, but I would argue that it is also vital to the development of the community as a whole.

The clear involvement that the oil company had in the Iranian education in this case I would argue has allowed the company the power and authority to influence the

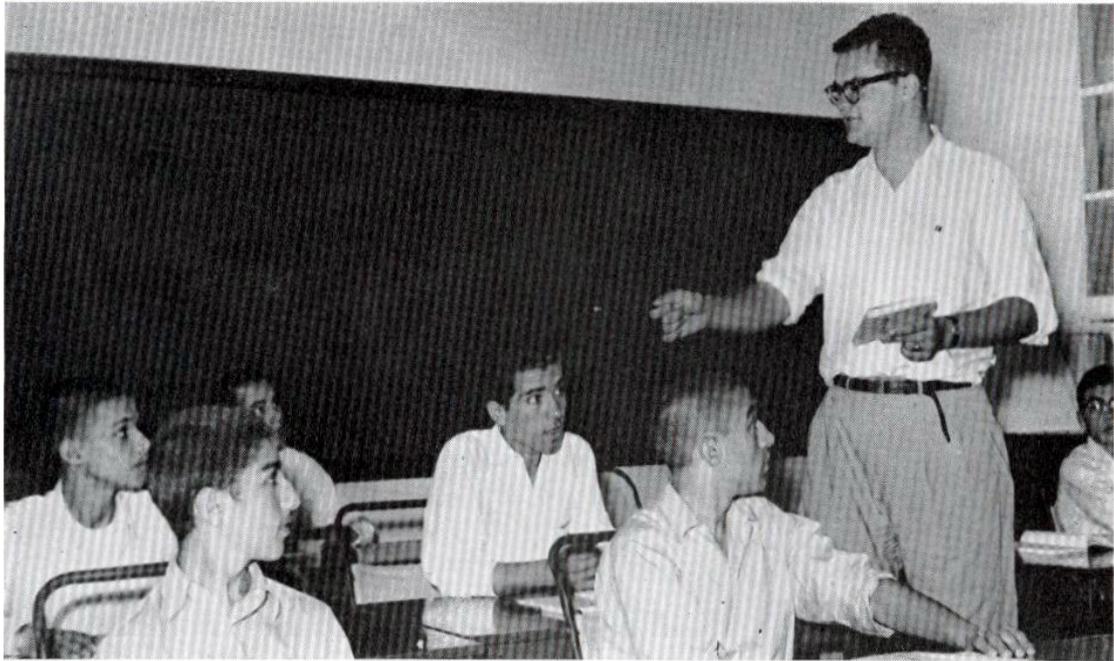
structure of the educational system in Iran. Also, through social interactions that come about from various social development projects mentioned in this section, the company has taken increasingly influential role both in the development and maintenance of the community. According to Papadakis and Taylor-Gooby (1987: 71), this kind of influential role would affects both social and political progressions. Thus, the company's position in the community and the Iranian educational system under discussions here represents the growing importance of the role of private actors in setting and maintaining standards and regulations in the public system (see Section 2.5.2). Captured by Iranian Oil Operating Companies in the 1950s, the following two figures show the classroom environments at Abadan Primary School (Figure 4.2) and Abadan Institute of Technology (Figure 4.3):

*Figure 4.2: Pupils in one of Abadan's Primary Schools*



Source: Iranian Oil Exploration and Producing Company (1958: 39)

*Figure 4.3: Students at Abadan Institute of Technology*



Source: Iranian Oil Exploration and Producing Company (1956: 23)

Following the examination of their past establishment in the community, it then becomes much easier to understand why the company was so effective in carrying out new social relations projects straight after the completion of the new consortium agreement. For instance, at the company's centre in Iran, the company was able to set up a number of brand new facilities for various training schemes which provided further support to the Iranian educational system. Although these activities do feature in the agreed terms that came with the new consortium agreement, the company's policy to focus on such activities when they did not have to is considered here to be a well executed move by the company from the very beginning. Thus, considering the view of Biersteker and Hall on the concept of "private authority", as presented in Chapter 2 (Section 2.5.3), I would argue that the company through their actions do create private authority in the form of "moral authority". Representing activities of a progressive social agenda, such a form of authority in this case involves the company carrying out tasks traditionally done by state actors.

Therefore, with the company playing a more active role in public services as discussed through the analysis of this chapter, I concur with Stephen Kobrin's view

in pointing out that “states are no longer the sole source of political authority [and that] private political authorities emerged and coexist with public authorities in an complex, interwoven, and ambiguous relationship” (Kobrin 2002: 67).

#### **4.7 Functions, Rights and Powers: the Implementation of Epistemic Authority**

Along with the social activities that the oil company carried out as mentioned throughout the section above, close examination focusing on “functions, rights and powers” as stated in the concession documents help reveal other forms of authority exercised by the company (BP 1954d: 1). This I would argue gives us a better understanding of how and where private authority emerges. This section highlights the authority which emerges from the public/private relationship in terms of demand and supply where there is an interaction of mutual interests (Lane 1985).

Concentrating on the analysis of the company’s activities involved with its functions in different operations, the negotiation paper which refers to the position of the Iranian government and the AIOC in the agreement (BP 1953, 1954f) is tremendously useful here. It can further reveal how the company’s ability to provide the necessary skills and knowledge has in turn highlighted the emergence of “private authority” through the process of gaining the concession (Section 2.5.3). The following statements extracted from the negotiation document article 37 “All Powers” indicates how one’s skill and knowledge can be used as a platform in the process of gaining the concession:

*“whereas, both the government of Iran and the National Iranian Oil Company desire to increase the production and sales of Iranian oil, and thereby to increase the benefits flowing to the Iranian nation from said oil, but additional capital, experienced management, and technical skills are required in order to produce, refine, areas part and market such oil in quantities sufficient to effect this increase in a substantial amount; and whereas the international oil companies to this agreement are in a position and are willing to supply such capital, management and skills” (BP 1954f: 43).*

According to Timothy Sinclair, this form of private authority which he labelled “epistemic authority” represents the capability of non-state actors to substitute or improve functions that are traditionally carried out by the state. He explains that “epistemic authority” relates to the ability to solve problems and to provide knowledge (Sinclair 1999). In this case for instance, the examination shows that the company was able to provide expertise and resources to carry out services ranging from exploration, production, transportation, refining to distribution of oil and gas. As revealed in the discussion in the earlier section, the company also uses such capacities to improve the development process of the Iranian social welfare system. Thus, it is possible to argue that the company exercised “epistemic authority” extensively throughout the process of gaining and implementing the oil concession. Beyond this observation, I would also argue that this particular form of authority which is associated with knowledge and expertise emerges from the relationship between the government and the oil company. Noticeably, this relationship does not emerge naturally, but in this case from circumstances of supply and demand (Lane 1985). To put it simply, the ability of the oil company to provide the knowledge and resources to the Iranian government lead to the public/private interaction where authority emerges.

As learned from the analysis of AIOC and its policy during the period of the consortium concession in the past few sections, forms of authority such as moral authority often emerge from social and community activities. Similarly, certain features of epistemic authority that the oil company exercises as discussed were also found to be involved with these non-oil related activities. Thus, it is not surprising to find that the oil company made great efforts in practising social development related policies throughout the process of gaining and implementing the oil concession. In this, one historical document entitled “AIOC – Confidential Letter” provides further evidence of this claim highlighting the importance of social development policies in the company’s operations. Here, it recorded details of the company’s early contributions to the welfare development of the country by recording details of how the oil company provided Iranian communities with “social facilities [such as] library facilities, cinemas, an orchestra, a place of worship, and married accommodation” (BP 1924: 2).

As found, the involvement in social development provided an important platform that saw the company further build relationships not only with local and national government but also with the local communities where they operated. These relationships, I would argue, is one of the main factors that contribute to the emergence of private authority. What I mean by this is that such relationships help demonstrate how public and private authority emerges in different situations. According to Debora Spar (1999), these relationships, particularly the one with the government, would of course depend upon the tendency of the government to use features of the quasi-regulatory output of the oil company as substitutes for their own action. These features include both oil and non-oil related issues. One example which confirms this argument made by Spar can be found from the document of the oil agreement dated April 26, 1954 (Anglo-Iranian Oil Company et al. 1954) where it clearly demonstrates how the government relied on the management of the oil company in the day-to-day governance of the local communities where the company operated:

*“For smooth functioning, liaison between local organization and the local management of the consortium’s producing and refining operation will have to take place on a day-to-day basis... In considering the foregoing outline procedures... of non-basic operations [and] the local day-to-day activities [in the community] in the fields and refinery areas... it would be necessary that the managers of the consortium’s fields and refinery operations should have ultimate authority... to ensure efficient and economical operation” (BP 1954g: 3).*

With the prosperity and financial returns at stake, the government allowed the oil company full authority over local organization and local activities around the area of operation. In short, the Iranian government was more than happy to allow the oil company to gain “private authority” in return for steady development of their oil industry. This public and private relation has been a common feature in both national and international oil industries at the time. As witnessed by the uprising of Iranian people against the British government and AIOC, it is not surprising to find that these major oil companies often hold a dominant position in the home market that they operate in. According to Roncaglia and Kregel (1985: 47), whether this is viewed as exploitation or normal business, these oil companies are “capable of

exercising a decisive influence on market developments”. Alongside the uprising of the people, although there has been some resistance to their dominance from the producer government as seen in the analysis of the nationalization, these companies continue to hold a dominant role in each agreement. Such dominance over home markets which sees the oil company plays an influential role in the way the market is regulated, as argued by Michael Webb, can be seen as “a clear example of the exercise of [private] authority” (Webb 1999: 86).

#### **4.8 Conclusion**

In this chapter, I have analyzed the different stages of public and private relationships through the process of gaining the consortium agreement of 1954 in Iran. I began the analysis with a discussion of the old concession prior to the 1954 consortium agreement where there is a clear pattern of the public and private interactions emerging. In this, I argued that the significance of non-state actors to the state can be seen very early on in the Iranian oil industry. Further, the emergence of private authority at the time of the Iranian oil crisis and the oil agreement that followed can be seen by examining the co-operative relationships between the state actors and the multinational oil companies. The investigation also highlighted how the oil majors gained their “private authority” from their ability to provide state actors with tools to resolve the oil crisis.

On public and private interaction, the case study revealed that the state actor (the Iranian government) is dependent on the private actor (the oil company) for financial means (in the form of skills, knowledge and resources to develop the national oil industry) and the private actor is dependent on the state actor for infrastructure, internal and external security and legal order (Winden 1983: 1). Although this may be the case, as presented in the chapter, certain circumstances could lead to the private actor taking a role that is traditionally done by the state. However, I am not claiming that the private actor will become more important than state, rather, I argue that such circumstances affect “the structure and functioning of both states and interstate system” (Kobrin 2002: 66).

Further analysis of the interaction between the oil company and their parent governments also provides fruitful insights. The case study demonstrates a clear example of how “western governments [often give] their tacit [or explicit] support [to private actors] through their participation in mixed private-public [affairs]” (Webb 1999: 86). For this reason it is appropriate to support Dimitrios Katsikas’s argument that such activities “have blurred the public and private dichotomy at both the domestic and international levels undermining the status of the state as sole regulator of social and economic affairs” (Katsikas 2004: 2).

As discussed extensively in this chapter, the case study has shown that states in this case are no longer the sole source of political authority. Through the concession, private authorities have emerged and coexist with public authorities in an extremely complex relationship. Increasing pressure for better economic and social welfare also contributed to the rise of the oil company as an important actor in national politics. This results in the oil company taking the lead in establishing norms, rules and standards to develop the Iranian oil industry. This regulatory power, as Louis Pauly emphasized, is considered to be an exercise of political authority through market mechanisms, hence “market authority” (Pauly 2001).

Although the oil company only recently began to prioritise social and environmental issues as part of their main responsibilities over the past few decades or so (BP 1997b), the case study has illustrated that both issues were heavily embedded within their early practices and activities. For this reason, I would argue that this modern view of the oil company on these issues may well originate from their historical ambitions to develop the Iranian community as a way to achieve effective operations. As discussed in the chapter, this not only made it easier for the company to operate within the community, but also gave them authority in the non-oil related area. According to Lipschutz and Fogel (2002: 115), because this authority is gained through normatively progressive social and environmental agendas, it can be labelled as a form of “moral authority”. Therefore, AIOC’s efforts in social development in Iran under discussions here can be considered as an exercise of moral authority.

Considering the evidence found, the case study in this chapter has shown that there are various levels and forms of private/public interactions involved in the oil

concession. Despite the continuing difficulty in pinpointing the exact location of its emergence, close examination of these interactions and relations have revealed that the process of gaining and implementing oil concession indeed authorizes new and novel modes of private authority.

## **CHAPTER 5: Locating Private Authority in Kuwait Oil Industry: the BP/Gulf Oil Concession Agreement in Kuwait**

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Focusing on the analysis of emerging patterns of public-private authority in the oil industry using the theoretical framework established, this chapter presents a discussion of the Kuwait oil industry. Here, the chapter focuses on the interaction between the Anglo-Persian Oil Company (now the British Petroleum Company), the Gulf Oil Corporation of America and the Kuwait government during the 1934 oil concession agreement. In particular, the chapter will focus on the activities and practices of the oil company during their operations in Kuwait. In line with the overall aims of the thesis, the chapter aims to identify the different forms of “private authority” by focusing on the roles of each of the actors mentioned above. To carry out such an analysis, the principal focus here is on relations between individuals representing the oil company and the government at the time of negotiations. To put it simply, the chapter will not only concentrate on how these actors exercise their power and authority but will highlight how such relationships and their positions in the process of gaining the oil concession can authorize different forms of private authority.

As one of the major oil producers in the world, Kuwait’s oil industry plays an important role not only in its own economic and social development but also that of many other countries in the world (Noreng 2002). Apart from its oil industry, its geographical position in relation to the major trade routes also gives Kuwait a politically significant position both in relation to neighbouring countries and to the major powers. Together, these two reasons meant that on many occasions Kuwait has been at the centre of significant moments throughout the history of the world oil industry (Crystal 1990). In particular, the 1934 oil agreement between the Kuwait government, British and American oil company and the 1975 Kuwait oil nationalization are considered by many to be two of the most important historical moments of change in the industry. Alongside the change in the Kuwait and world oil industry, I argue that these events present historical changes in the process of public and private interactions. In this, I mean historical changes that highlight the emerging pattern of public/private relationships that lead to the establishment of

various modes and forms of public-private authority. Therefore, the main analysis in this chapter will be on events mentioned with main focuses on interactions between the two sets of actors.

The analysis and discussion in this chapter are based mainly around the analysis of primary sources which include documents from the Middle East Documentation Unit at the University of Durham, the India Office Records at the British Library Research Archive in St Pancras (London) and the Foreign Office Records and the Colonial Office Records at the Public Record Office (PRO) situated in the National Archive in Kew, London. Other sources also include documents from the Kuwait Oil Company Archive, the Kuwait Institution of Economic and Social Planning and Information Department of OPEC. The information gained from these institutions ranges from historical documents to published works and reports.

The chapter is organized into four parts. The first part presents the history of the Kuwait oil industry prior to the 1934 oil concession. In this section, I try to highlight the process that brought Kuwait to its position as an economically and politically significant nation in the world oil industry, particularly, the effect that colonial rule had on the early development of Kuwait's oil industry. Following the historical background to the Kuwait oil industry, the second part of the chapter introduces the negotiations involved in the 1934 oil concession agreement. Here, I focus on the interactions between the three main actors (the Kuwait government, APOC and Gulf) in an analysis aiming to identify and locate different modes of private authority. The chapter then moves on to concentrate on the implementation and operation of the oil concession where the relationships between the oil company and local community are investigated. Finally, the last part of the chapter concludes the main arguments by linking the evidence found and the theoretical framework presented together explaining how the analysis of the above mentioned actors' practices and activities can lead to a better understanding of the emergence of private authority in the oil industry.

## 5.1 Kuwait's Oil Possibilities: Interactions of Power

Kuwait is an independent Arab state that lies at the corner of the Arabian Gulf, enclosed by Saudi Arabia to the south and Iraq to the North and West (Vine and Casey 1992) (Map 5.1 below).

*Map 5.1: Kuwait*



Source: U.S. Department of State (2006)

With an area of 5,800 square miles (Ministry of Finance and Oil 1970a), Kuwait is considered to be one of the smallest countries in the world. Although this may be the case, because of its oil reserves (the world's sixth largest) (Crystal 1990), the country

is the ninth richest country in the world per capita (IMF 2008). In the international oil industry, the State of Kuwait is the seventh largest oil producer and the fifth in the quantity of exported oil. Within its region on the other hand, Kuwait is the third largest crude oil producer following Saudi Arabia and Iran respectively (Cordesman 1997). In 1969, when oil production peaked, the country's national oil production amounted to 1,011,780,006 barrels or an average of 2,772,000 barrels per day (Kuwait Oil Company Limited 1969). Today, according to the report carried out by Business Monitor International (BMI) (2009), Kuwait still retains its status as one of the major oil producer nations with an average production of 2,630,000 barrels per day in 2007.

Historically, the establishment and early development of Kuwait was mainly shaped by various forms of imperialism, first the Ottoman Empire then the British Empire (Busch 1967). As a result, the early history of the country was one which is full of interactions between regional and world major powers, in particular, those that resulted from competitions over interests in different areas of the country. Ranging from conflict to cooperation between major powers at the time, these interactions were hugely influential to the overall progression of Kuwait. In this, although oil is now playing the central role in nearly all aspects of the country, such interactions in the area however were not due to the quest for oil.

The early economy of Kuwait depended very much on fishing, pearl-diving, seafaring, boat-building, herding and trade (Al-Sabah 1980) which were at the centre of the economy from their establishment until the discovery of oil in the 1930s (Ministry of Finance and Industry 1965). The early interest in the area was therefore due to its location – mainly because Kuwait is located at the heart of the imperialist expansion (at the centre of the land mass of Europe, Asia and Africa). Thus, throughout the latter eighteenth and early nineteenth centuries, Kuwait was part of the Arabian holdings of the Ottoman Empire. Although this is the case, the turning point in such a relationship and a crucial development in Kuwait's national history came in 1896 when Sheikh Mubarak seized power from his brother, Sheikh Muhammad, in a violent coup (Smith 1999). A few years after, due to fears of Ottoman occupation and as a reaction to ottoman proposals to place a quarantine officer in Kuwait, Mubarak entered into a secret agreement with Britain for their

protection to avoid becoming subordinate to the Turks (Nyrop 1984). As cited in Lorimer and Birdwood (1970: 1048-49), in the agreement dated 23<sup>rd</sup> January 1899, Mubarak urged his successors:

*“not to receive the Agent or Representative of any Power or Government at Kuwait, or at any other place within the limits of his territory, without the previous sanction of the British Government... [and also] not to cede, sell, lease, mortgage, or give for occupation or for any other purpose any portion of his territory to the Government or subjects of any other Power without the previous consent of Her Majesty’s Government for these purposes” (Lorimer and Birdwood 1970: 1048-49).*

In this, the Ministry of Fuel and Power stated in 1951 that this type of agreement was a standard practice during British rules at the time:

*“it has been the practice of H.M.G that concessions in British or British protected territory should only be granted to British Commonwealth companies...” (Murphy 1951).*

Therefore, the move by the British Foreign Office to sign the agreement with Kuwait highlights their ambitions to expand their Empire and block any foreign challenges. Reflecting this view, Sir Arthur Godley, Permanent under-Secretary in the India Office expressed: “...we don’t want Koweit [sic], but we don’t want anyone else to have it” (Busch 1967: 196). To Britain, the Middle East region was important in two senses: firstly, they formed the corridor through which passes the great East to West trade route, and secondly, their central position at the junction of three continents made them strategically important. According to Crystal (1990), these two factors were shaping the British policy in the region at the time. In this, Crystal (1990) argued that protecting strategic interests meant protecting the seas for maritime trade, hence both factors hold an equal importance value to the dominant position of the British in the Middle East.

In the history of oil discovery, the British government influence in Kuwait would play a prominent role in the way in which the oil company went about negotiating for the oil concession. For instance, the ruling Sheikh reaffirmed a stipulation made

in the agreement with the British government in 1899 in confirming that “he would grant a concession only to a group recommended by the British government” (Nyrop 1984: 94). As a result, many saw Kuwait as a state which was firmly under the control of the British. Here, Sir John Glubb<sup>20</sup>, a British Commanding General in the Arab Legion 1939 – 1956 wrote: “the Sheikh of Kuwait is often pointed to as a British puppet” (Glubb 1959: 374). It was then not surprising to find that the oil companies of other nations found it hard to break into Kuwait for concessions whilst, a British oil company, the Anglo-Persian Oil Company (now BP), was eventually to become the holder of the oil concession in Kuwait (ibid.). In many ways, it can be argued that the British government acted as the major agency in paving the way for the British oil company to establish themselves in Kuwait. This eventually resulted in the deployment of the oil company’s expertise and resources which I argue to be one of the main factors that lead to the exercise of public-private power and authority (see Section 2.4.1 and 2.5.3). An example of this argument will be presented and explored in more detail in the latter sections of this chapter.

Prior to the discovery and export of oil which followed during the 1930s, the “first recorded interest in the oil possibilities in Kuwait came [a decade or two earlier] in 1911” (Chisholm 1975: 3). In this, Managing Director of Anglo-Persian Oil Company (APOC), Sir Charles Greenway, wrote from London to the British Political Representative in Bushire, Sir Percy Cox<sup>21</sup>, requesting his opinion on the possibility of obtaining a valid oil concession in Kuwait. Here, he wrote in the letter dated 3<sup>rd</sup> of November 1911:

*“I should like you to put forward an application on behalf of the Anglo-Persian Oil Company Co. for a Prospecting License, the draft terms of which I will send you later on if you think there is any chance of a Concession being obtainable. The question of whether or not there are oil deposits of any value in Koweit [sic] is,*

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<sup>20</sup> Lieutenant-General Sir John Bagot Glubb (1897 – 1986) was a British soldier who led and trained Transjordan’s Arab Legion 1939 – 1956 as its commanding general.

<sup>21</sup> Major General Sir Percy Zachariah Cox (20 November 1864 – 20 February 1937) was a British Indian Army Officer and colonial administrator in the Middle East. In 1904, Cox was appointed Acting Political Resident in the Persian Gulf and Consul-General for the Persian provinces of Fars, Lurestan and Khuzestan and the district of Lingah, resident at Bushire.

*of course entirely problematic, and consequently we should only in the first place be prepared to take out a Prospecting License, which in view of the difficulties of prospecting in this place should be for a fairly long period, say 2-3 years” (Greenway 1911).*

Noticeably, this first move highlights the fact that although the company was clearly interested in obtaining a concession, the uncertainty about the availability of oil meant that they were only prepared to take out a Prospecting License. This indicates that the process of gaining the oil concession is very much tied with the prospect of future gains both of the company and the Sheikh. Since the future gain is not guaranteed, the Prospecting License is a great example of how the authority which may result from obtaining the oil concession is subjected to not only a proven gain but also a prospect of it. Despite the risk involved in taking out a Prospecting License, it is this prospect that drive actors to take actions needed to create gain in the first place (see Section 2.4.3). Thus, for further analysis it is important to pose two main questions: first, what roles do the practice of “prospecting” play in the process which leads to the emergence of private authority; and second, how does such role affect the operation of private authority itself?

Although there was much debate of whether or not there were oil deposits of any commercial value in Kuwait, the question of the oil availability was not to be the main reason that delayed the process of the concession. Instead, due to political uncertainty in the capital and conditions in Arabia that saw Kuwait’s Arab and Turkish neighbours fighting for supremacy, APOC decided not to put forward an application for the concession (Chisholm 1975). The company however did not abandon the idea totally and continued to monitor the situation and urged Sir Percy Cox to contact the British Political Representative in Kuwait, Captain William Shakespear<sup>22</sup>, to work together in keeping close contacts with the Kuwaiti government (Al-Ghanem 1998).

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<sup>22</sup> Captain William Henry Irvine Shakespear (1878 – 24 January 1915) was an English Civil servant and explorer who mapped uncharted area of Northern Arabia and made first official British contact with Ibn Sa’ud, future king of Saudi Arabia. In 1904 he joined the British Foreign Office and became Political Agent in Kuwait in 1910.

When the situation started to improve, both men were again instructed by the British government to help the company in their quest to gain the oil concession. In this, they managed to gradually build strong relations with the Kuwaiti government through letters and meetings with Sheikh Mubarak. As Nikolas Rose and Peter Miller (1992: 174) have argued, political power is exercised “through a profusion of shifting alliances between diverse authorities [such as state and civil society, public and private, government and market, etc.] in projects to govern a multitude of economic activity, social life and individual conduct” (Section 2.2.3). I would argue that the relationship between the British representatives and the Kuwaiti government as discussed above majorly contributes to the establishment of various modes and forms of public-private power and authority. Further, Rose and Miller suggests that “most individual [actors involved] are not merely the subjects of power [and authority] but play a part in its operations” (Rose and Miller 1992: 174). It is therefore vitally important to examine practices and activities of each individual in the negotiation and implementation process of the concession as part of the analysis into the nature of private authority.

Based on the platform of political relations built by Sir Cox and Captain Shakespear of the British government, APOC gained important connections with the Kuwaiti government which are traditionally hard to achieve. For instance, the Managing Director of the Anglo-Persian Oil Company (APOC), Sir Charles Greenway, was able to contact Kuwaiti Officials to discuss oil development possibilities through the two British representatives (India Office 1989). As a result, the company was eventually offered the first geological survey of Kuwait by Sheikh Mubarak in 1913. Although this move by the Sheikh was mainly aimed at finding water due to widespread concerns among Kuwaiti government officials over the lack of fresh water and the scarcity of rain in the country at the time (Ministry of Finance and Oil 1970a), the permission is considered to be the first real breakthrough for the company in gaining access into the country.

The period of survey saw a close interaction between the Kuwaiti local governmental official and the geological survey staff. This not only gave APOC chances to build their presence and influence in the country’s water and minerals development scheme, but also allowed them an opportunity to further build their political

relationship with the Kuwaiti government. The development of this relationship was however very sensitive as Captain Shakespear in his letter to the geological survey team warned that:

*“any investigation will have to be carried out with the greatest care to avoid raising suspicion in the Sheikh’s mind...the effect of arousing the slightest suspicion in the Sheikh’s mind that you have come to Kuwait with any other than the sole object of helping in a water-supply scheme, will have the most detrimental effect upon all our relations with the Sheikh” (Shakespear 1913: 1).*

Having taken note of Captain Shakespear’s warning and all too aware of the consequences that could occur if they were found to be surveying for anything else but water, the geological team concentrated on their roles in helping the local people to develop the water-supply scheme set by the Kuwaiti government. Through the scheme which sees them working closely with the local people, the team discovered a variety of water-sources and built many wells in various areas throughout Kuwait. The contribution of the company in the success of the water-supply scheme meant that the government’s initial reluctance to allow the company to search for oil started to ease. As a result, the company was then able to turn their attention to their main interest, oil. Here, as suggested in the company’s reports, documents and letters of correspondences, the findings of the survey revealed that apart from the availability of water in many areas there was also a high possibility of obtaining oil in workable quantities. In this, the Director of Geological Survey team, H. H. Hayden, explained:

*“The prospects of obtaining oil supply depend principally upon (i) the age and the capacity for storage rocks, (ii) structure, and (iii) position with regard to the oil “belt”. The age of the beds is favorable, if it is correct to assume they belong to the Fars, since this is the oil bearing series in Persia. There is no reason to believe the nature of the beds beneath Burgan should be different from that of the Fars in Persia, and they may be looked upon therefore as sufficiently porous to retain oil in a workable quantities” (Hayden 1913: 1).*

Apart from being the first platform for public and private interactions, the survey highlights substantial evidence of the early signs of private authority being exercised

by the oil company. A prime example of this is the Kuwaiti's heavy reliance on the survey report put together by the company for guidance to create policies for the early development of their oil industry. For instance, following the report's suggestions that Burgan would be the best site for test drilling, the Sheikh promptly allowed Anglo-Persian Oil Company (APOC) the necessary authority to bring specialist geologists to Kuwait to further inspect the seepages at Burgan and Bahra (Chisholm 1975). With such authority, APOC (with the backing from the British government), Admiral Slade<sup>23</sup> (head of a British Admiralty Commission at the time) and APOC's geologist entered Kuwait to inspect Burgan (Cox 1913).

Despite the breakthrough, the outbreak of the First World War (1914-1918) however stopped the progress in its track. It was not until towards the end of the war, around October 1917, that the company re-entered the site for investigation and eventually granted permission to begin negotiations for oil rights in Kuwait (Ferrier and Fursenko 1989: 38). The nature of the post-war applications for oil concession in Kuwait again reveals how relationships between public and private actors played a crucial role in the concession success. In this case, APOC used their British roots to their advantage by applying for the concession mainly in the areas that were under British control. As a result, they continued to gain vital support from the British government:

*“[R]egarding an application made by the Anglo-Persian Oil Company for the grant of oil concessions in the Arabian Littoral of the Persian Gulf... the Political Resident of the Persian Gulf may be instructed to assist the representatives of the Company to negotiate an agreement with the Sheikh of Koweit [sic]” (Young 1922: 1).*

Together with the fact that a considerable amount of geological investigation had already been done before the war broke out, the backing gave the company great leverage in the negotiation. Although this may be the case, due to talks in the Faisal-

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<sup>23</sup> Edmond John Warre Slade was appointed Director of Naval Intelligence in 1907 and promoted Read-Admiral in Nov 1908. With Winston Churchill convinced of the strategic importance of Oil as a fuel for the fleet, Slade as "Head of Expedition to Persia in connection with Anglo-Persian Oil Company Oct 1913-Feb 1914" in a four man Commission travelled to report on the Oilfields.

Weizmann Agreement (Middle East peace proposal) as a part of Paris Peace Conference in 1919 aimed to settle disputes stemming from World War I (UNISPAL 1919), the application did not progress in the way the company was hoping. Constant changes in leadership of the country between 1915 and 1921 due to Mubarak's death in 1915, Jabir's death in 1917 and Salim's death in 1921 also meant that many basic agreements and negotiations in this application had to be revised when Sheikh Ahmad came to power (Crystal 1990). Under him, the company and the government were involved in thirteen long years of negotiations resulting in the first Kuwait oil-concession agreement of December 1934 (Sharikat 1960).

As will be explored in the next few sections, I would argue that the thirteen long years of negotiations around this concession acted as a platform for the progression of the public-private relationship. As public-private power and authority is largely exercised through interactions that lead to such public-private relationship, the key here is to investigate and analyse individuals as part of these interactions.

## **5.2 Balance of Authority: Oil Negotiations**

To begin the investigation and analysis of the interaction between the oil company and the state involved, it is vital to first explore the development of their roles in the negotiations. In this, APOC began their negotiations in 1922 by providing the British Political Representatives in Kuwait with a draft concession agreement as a basis for further talks with Sheikh Ahmad (India Office 1922). Highlighting the British intention to exert influence in the country and their support in APOC's bid for the concession, the British representatives in Kuwait began to check and prepare the draft before presenting to Sheikh Ahmad (More 1923). Just as the team was about to submit the application to the Sheikh, the event however took an unexpected turn as a rival candidate for the concession entered the negotiations. Here, the rival candidate came in the form of Eastern and General Syndicate Limited (formed in August 1920 with the objective of obtaining concessions and investigating business opportunities in Arabia) (India Office 1989).

The intervention by Eastern and General Syndicate Ltd. was to turn the negotiations into ten long years of bargaining between the Sheikh and the two rival companies before a joint oil concession in 1934 was achieved. These interactions between the three actors, as will be analyzed further in this chapter, provide us with numerous examples of struggles around power and authority. The observation of such moments, I argue, would in turn help us to identify various forms of private authority.

Prior to the joint concession of 1934, APOC and EGS were locked into a battle, both aiming to win an ultimate reward which was control of Kuwait's oil rights. Eastern and General Syndicate Limited began their quest by sending a strong character in Major Frank Holmes<sup>24</sup> as their representative to negotiate with Sheikh Ahmad. Fresh from the success of gaining his first concession in Saudi Arabia where great relations with King Ibn Saud were built (see chapter 3), Major Holmes sent a telegram to Sheikh Ahmad urging him "not to grant oil concessions to any other company without first seeing the terms offered by [his] company" (Chisholm 1975: 5). He then followed up the first contact by sending several letters with proposals for the concession (Lunde 1984).

With positive recommendations from King Ibn Saud and terms which were much more favourable than those proposed by APOC, it was clear that Holmes's intervention had an immediate effect on the negotiation as a whole. Although this made EGS a clear favourite with the Sheikh, again using the British influence to their advantage, APOC continually reminded the Sheikh of the fact that "neither Major Holmes nor the syndicate which he represents are in any way appointed from [or approved by] the British government" to negotiate in such a concession (More 1923: 1). In this, Sir Percy Cox advised Captain William Shakespear to remind Sheikh Ahmad of the condition in a telegram:

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<sup>24</sup> Born in New Zealand in 1874, Major Frank Holmes was a British geologist who worked in a South African gold mine and then for two decades, specializing in gold and tin was an itinerant mining engineer all around the world – Australia, Malaya, Mexico, Uruguay, Russia and Nigeria. After serving as a major in the British forces during WWI, Major Holmes joined Eastern and General Syndicate Limited in 1921 to pursue the oil concession in Persia.

*“Major Holmes is endeavouring to get an oil concession out of Sheikh Ahmad and his emissary Muhammad Yatim will arrive at Kuwait almost immediately. If you think there is a likelihood of the Sheikh being tempted reminds him of his grandfather’s convention of 26<sup>th</sup> Dhul Qa’dah 1331 which we consider binds him and his successors. Major Holmes is in no way a person appointed from the British Government” (Cox 1923: 1).*

The British government’s point was just that they had for many years already agreed a formal undertaking from the Sheikh of Kuwait and other Arab rulers not to grant oil concessions to any persons not approved by them (Trevor 1923). This was, they argued, to protect the rulers against exploitation by concession-hunters and to restrict the grant of concessions to reputable British firms (India Office 1923b). The situation shows the extent of the importance of colonial rule during the time of oil development in the region (Section 2.6.2), highlighting that although the Sheikh had full authority to exercise in his territories, with British protection, such authority always depended on subservience to the British in wider policy. As a result, wary of the political complications that might arise if he was to grant a concession to EGS, Sheikh Ahmad decided that it would be best to avoid accepting any offer unless there was approval from the British government (India Office 1923a). With such knowledge, on behalf of EGS, Holmes soon left for London hoping to secure the British government’s permission for his oil negotiations in Kuwait.

Seeking official approval for his negotiations in Kuwait, Holmes presented the British government with their latest draft concession in London. Although the government recognized that the EGS did not follow the normal procedure from the start, they did not have any objection in principle to the EGS and their application (Trevor 1923: 15). In the end, the British government approved Holmes’s request and granted EGS permission to negotiate with the Sheikh. Here, EGS informed Sir Percy Cox, the British Political Representative in Bushire, of the situation by letter:

*“The Secretary of State, Colonial Office... His Grace the Duke of Devonshire has now [directed the Eastern and General Syndicate Limited to inform] the political Resident at Bushire that he will raise no objection to the grant of a Concession in [Kuwait] by the Sheikh” (Holmes 1924: 1).*

This decision officially authorized competitive negotiations between EGS and APOC and in turn gave the Sheikh a far better bargaining position. Moreover, the decision also created head-to-head competition between the two companies for the authority that would certainly come when the concession was obtained. In many respects, I would argue that the EGS and Holmes had not only been approved to negotiate for the concession but also had been given the power to compete with APOC on a level playing field.

Although the EGS and Holmes were delighted with the decision and their position in the negotiations, their lack of experience and know-how in the oil industry presented a significant threat to their chances of obtaining the concession. This weakness does present a lack of what Timothy Sinclair (1999) calls “epistemic authority” which he argues is the ability to provide knowledge and expertise in a particular area (see Section 2.4.2 and 2.5.3). In this, by giving examples of Bond-rating agencies as an actor who often exercised this kind of authority in the financial markets, Sinclair also explains that such authority “emerges from the relations of asymmetry between [the actors] and those who are subject to their judgments [where] this asymmetry is not of a personal nature but emerges from [a particular set of] circumstances” (Sinclair 1999: 159). Thus, it can be argued here that private authority in the form of “epistemic authority” emerges from interactions of public and private actors under certain conditions.

In terms of the nature of Sinclair’s “epistemic authority”, what is striking here is that it evolved from a similar rationale of “authority of authorship” suggested by Biersteker and Hall (2002). As a subdivision of “moral authority” (Section 2.5.3), “authority of authorship” is similar to “epistemic authority” in that it is also exercised by non-state actors through the use of their knowledge and expertise. For instance, non-state actors may provide expert advice to the state as part of their effort to influence the setting and maintaining of policy. Therefore, further investigations into private actors with these types of private authority in this case should give us great insight into how Kuwait’s national policy, especially those regarding the oil industry, could be influenced and affected.

As APOC held considerable expertise and resources going into the negotiation, instead of going head-to-head with APOC in a competition to get the concession, the EGS tried to approach APOC with an intention to sell any interests in the concession. This however turned out to be unsuccessful as APOC's general manager in London, Sir Arnold Wilson, wrote to APOC's representative in Kuwait stating their intention not to deal with the EGS given that:

*“[EGS] has been bothering us for the last few months, trying to sell us the Kuwait concession before they have got it! They say that they have no intent of working themselves. All they wish to do is to sell to someone else... we are [certainly] not having [it]” (Wilson 1926: 1).*

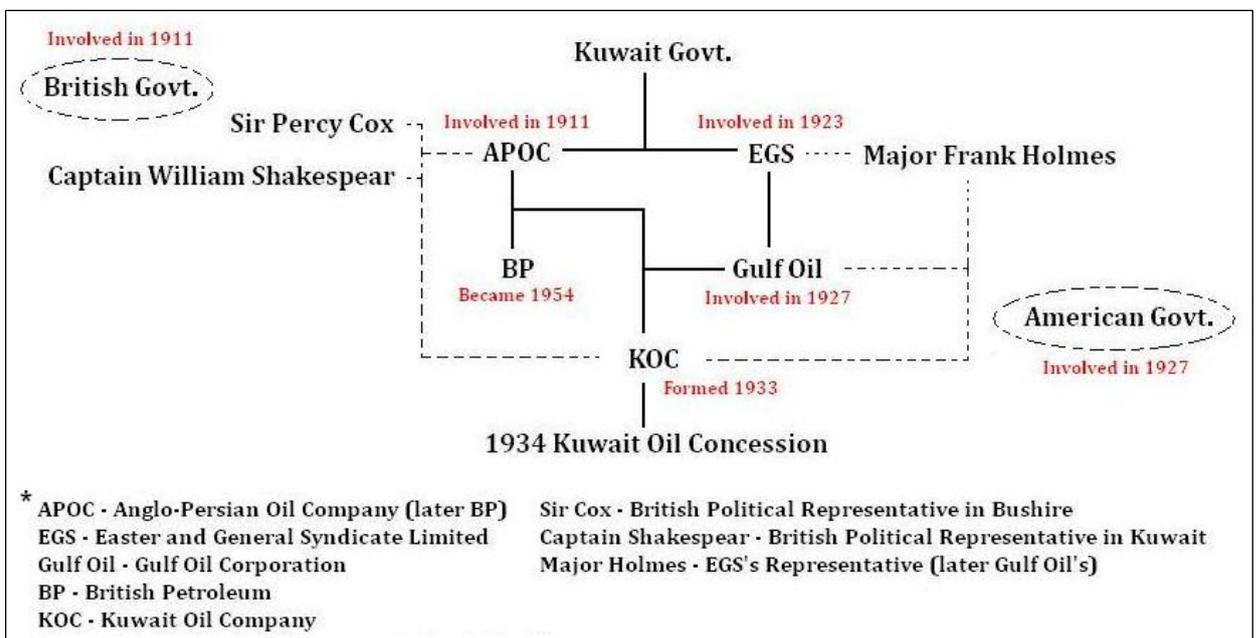
So, after further failed attempts to negotiate with the counterpart, seeking a more powerful and dominant position, the EGS turned to the oil company strong enough to challenge APOC. The company in this position was the “Gulf Oil Corporation”, an American company who showed obvious interest in the Arabian venture. With the geological report reviewed by the company, the EGS eventually secured the backing of the Gulf Oil Corporation in 1927 (Sharikat 1960: 20). This powerful backing and Holmes' relationship with the Sheikh would combine to give EGS great bargaining power in the negotiations. In this, after continued negotiations between the three parties, the EGS/Gulf, APOC and the Kuwaiti government, a major development came on the night of 31<sup>st</sup> May 1932 when oil supplies of commercial quantities were discovered in Bahrain (Clarke 1991). This had huge implications for the previous debates about the location of oil in Kuwait and increased Holmes's reputation due to his perennial optimism (Biscoe 1927: 3). As a result, the pace of the negotiations accelerated tremendously and an agreement was first made in December 1933 (Laithwaite 1934).

Within the initial agreement, both companies agreed to follow strict terms in hoping that the negotiations could move forward. In short, the two companies agreed that they, “after the signing of this Agreement, [would not] carry on any negotiations or make any efforts directly or otherwise and/or either alone or jointly with others, to secure a concession or any interest in any concession covering the whole or any part of Kuwait” (Chisholm 1975: 4). This agreement not only helped to move the

negotiation forward in the right direction, it also helped reduce the continuing tensions from the ten years of on-going battles for the Kuwaiti oil between the two companies. Thus, the co-operation for the agreement ultimately resolved any struggles for control over Kuwait’s natural resources resulting in the formation of a joint single actor to pursue the same goal. As Laura Albareda (2008: 1) explains, “corporations often exercise [their] power and authority... through inter-firm co-operation”. A primary observation of private actors in the negotiation process of the agreement under discussions here therefore seems to confirm the notion that that private authority can be gained from co-operation between private actors (Section 2.4.2).

Through the co-operation between APOC and Gulf Oil, Kuwait Oil Company Limited (KOC) was eventually formed. In this, it represented a joint enterprise where APOC and Gulf Oil had “equal rights in the quest for oil in Kuwait” (Kuwait Oil Company Limited 1963: 24). The establishment of the Kuwait Oil Company Limited then proved to be crucial as the Kuwait oil concession was finally achieved and signed on the 23<sup>rd</sup> December of 1934 (HM's Secretary of State for India 1934). The following figure illustrates the overall picture of the interaction between different public and private actors from the three sides (the British, the American and the Kuwaiti government) leading up to the 1934 oil concession agreement:

*Figure 5.1: Public/private interactions in Kuwait oil development*



The 1934 oil concession would not only give the KOC seventy five-year exclusive privilege to “explore, search [and] drill” for oil in the State of Kuwait (Kuwait Oil Company Limited 1934b: 1), but also provided them with the authority required to carry out many practices and activities in the local community that they operated in. This highlights how private authority and power is gained through the agreement of concessions. The establishment of the KOC therefore reflects Pamela Burke’s view on regime theory which suggests that multiple actors “can coordinate interests in order to form an authoritative position” (1999: 226) (see Section 2.3.2 and 2.4.1). The multiple roles that KOC took to form such an “authoritative position” will be explored in detail in the next few sections.

### **5.3 Oil Concession Agreement of 1934: Process of Authority**

Through the oil concession of December 1934, Sheikh Ahmad granted the company with exclusive right to search and produce oil “within the State of Kuwait including all islands and territorial waters appertaining to Kuwait as shown generally in the map...” (Kuwait Oil Company Limited 1934c: 1). As the agreement was to last 75 years from the date of signature (Kuwait Oil Company Limited 1963), the agreement effectively gave the company a prominent position in the development of Kuwait. As a private actor, such a position allowed them to gain great influences in the country’s political, economic and social issues. For the purpose of the analysis, this section intends to provide some examples of these influences through observations of the company’s roles in the Kuwaiti oil development with special attention to the effects that the oil concession brought to the State of Kuwait.

Under the concession, Sheikh Ahmad earns his share of the oil profits on a royalty basis. The initial payment for the concession was Rs. 475,000<sup>25</sup> (on signature) Rs. 95,000 (annually before declaration) Rs. 250,000 (annually after declaration) with a royalty of Rs. 3 per every English ton “won and saved” (Kuwait Oil Company

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<sup>25</sup> In 1934, the Indian rupee to the British pound sterling was a fixed value of 18 pence (13½ rupees = 1 pound).

Limited 1934c: 3). These terms however changed when the concession was amended in the 1951 negotiations which ensured that the Ruler received 50 per cent of the profits accruing from the operations in Kuwait (Sharikat 1960) and that the concession was extended for another 17 years (Ministry of Finance and Oil 1970a). This second concession, amended and extended from the first one, proved to be significantly easier to achieve than the first. This happened for two reasons: first because of the positive political relationships that the company established with both the local and national government prior to the new negotiations, and second because of the contribution made by the company to the local community during their operations.

The examination of the terms in the concession agreement first reveal that for the purposes of finding and producing oil, the Sheikh gave the oil company full rights and privileges to carry out any operations necessary. This signifies full authority in operation-related activities which covered a wide range of development activities in the country. Here, it stated in Article 5 of the agreement:

*“For the purposes of its operations... the company shall have the right without hindrance to construct and to operate power stations, refineries, pipelines and storage tanks, facilities for water supply including boring for water, telegraph, telephone, wireless installations, roads, railways, tramways, buildings, ports, harbours, harbour works, wharves and jetties, oil and coaling stations, with such lighting as may be requisite and any other facilities or work which the Company may consider necessary...” (Kuwait Oil Company Limited 1934d).*

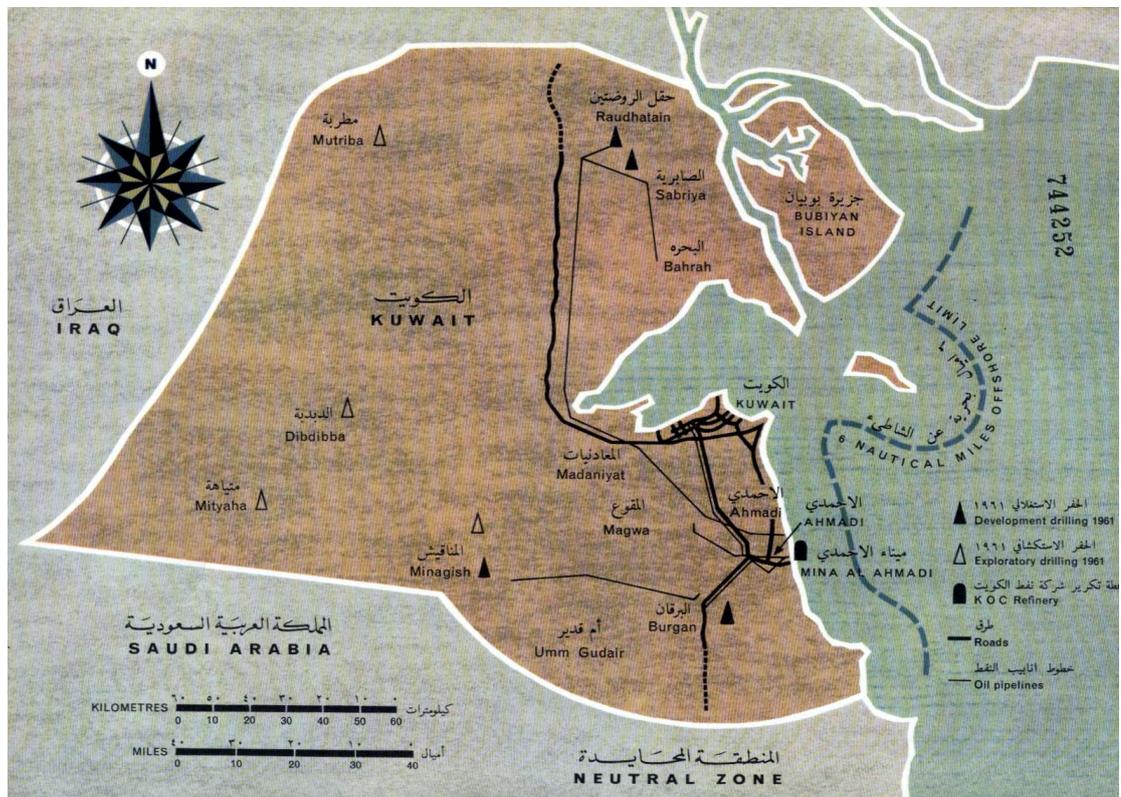
As noted in the terms of the agreement above that the company was entitled to “right without hindrance,” the concession provided the company with great flexibility in their operations. Despite having to inform the Sheikh of general progress, such enormous flexibility meant that the company was clear to operate in their own terms without needing further permission (Kuwait Oil Company Limited 1934b). In this, the company was able to make decisions without interference from the government. For instance, the company was left with full authority to decide what, where and when to build various facilities as mentioned above – “to construct and to operate... any facilities or work which the company may consider necessary” (India Office

1934). Together with this, due to their position as the main employer in the area, they also had a huge influence in the local labour market deciding how to employ local workers and who to employ. Although this was subject to the approval of His Majesty's government, the local government was given instruction to seek advice from the company on its local employee's situation (Walton 1934: 2).

According to Tim Buthe, States are the source of legitimate authority and are able to transfer "governance functions" to private actors (Buthe 2004: 284) (see Section 2.2.3). It is therefore possible to argue that by signing the agreement Kuwait had in turn transferred some of its authority relating to the running and keeping of its oil industry to the company. This not only involved the government abdicating part of their responsibilities to the company but also allowing the company legitimate position in the country. As this legitimate position ultimately leads to the company gaining a level of authority, their practices and activities including decision making in certain circumstances such as the one highlighted above can therefore be considered as an exercise of private authority.

From the investigation, apart from building facilities and sorting out employment issues, another function which the Kuwaiti government relied upon the company in developing the Kuwait oil industry was in the field of exploration. Ranging from geological survey to test drilling, even before the agreement was signed, the Kuwaiti government relied on actors outside the government for advice and assistance. Thus, the first permission that the Sheikh gave to the company was to bring in a geological team necessary to begin a full-scale exploration (India Office 1989). In this, the exploration began in Bahrah on the north shore of Kuwait (Map 5.2) where a combined British and American geological team, led by the Anglo-Persian geologist, Percy T. Cox, and the American, Ralph O. Rhoades (who later became chairman of the Gulf Oil Corporation), spent almost a year working on the site. During this time, the company built a close cooperation with the Bahrah local authority to ensure its effective operations (Winstone and Freeth 1972). This ability to provide expertise and resources for the exploration missions signifies the private authority that the oil company had in relation to the state (see Section 2.4.1). In Biersteker and Hall's view, such authority is labelled "moral authority" or authority of "authorship" (see Section 2.5.3).

*Map 5.2: Map of the State of Kuwait and Kuwait Oil Company's operations in 1961*



Source: Kuwait Oil Company (1961)

In April 1937, the exploration team decided to move on from Bahrah as any signs of oil found from the well did not prove to be of commercial significance (Kuwait Oil Company Limited 1963). Although this may be the case, simultaneous geophysical surveys which were being carried out in other areas of Kuwait revealed a promising structural formation in the Burgan area, 28 miles south of Kuwait Bay and 14 miles from the coast of the Gulf. As a result, the team began to dismantle derrick and drilling equipment at Bahrah and moved it to Burgan where they reassembled and began drilling later that year (Sharikat 1963). Because the operations attracted many local interests, to make sure that this did not interfere with the operation, the company appointed a chief local representative to carry out any contacts between the team and the local (Winstone and Freeth 1972). In this, the chief local representative played an influential role in linking the company and the local community. An example of this is to be highlighted in the next two sections, in particular on the analysis of various development projects (Section 5.4 and 5.5).

#### **5.4 Local Involvement: Business of Governance and Market Authority**

Having settled in the new environment, the team worked solidly for five months before striking oil-bearing sands at a depth of 3,672 feet on 22 February 1938 suggesting that they were not far from a productive zone (Kuwait Oil Company Limited 1963; Ministry of Finance and Industry 1965). Four days later, the first real flow of oil came which resulted in production of oil at rates up to 4,343 barrels per day (Ministry of Finance and Oil 1970a: 16).

Following the success of finding the first real flow of oil, eight additional wells were drilled in the hope of establishing production in the Burgan area. All but one proved to be productive. This first sign of oil success not only resulted in an expansion of well sites, it also led to the beginning of local community contributions made by the company as they began to set up a small clinic and other facilities around the local area. Due to the fact that Kuwait did not have the resources or knowledge to properly develop facilities for their community services, these small projects later evolved into major projects which benefited the local community tremendously (Kuwait Oil Company Limited 1963). In this, these projects will be discussed in more details in the latter part of this section and the next section (Section 5.5).

In brief, in cooperation with local government, the company later built hospitals and schools to accommodate both the family of their employees and people in different local areas that they operate in (Kuwait Oil Company Limited 1973a). According to the company's records, by 1960 the company led the state to fully establish a comprehensive education system "providing all the youth of the country from five years onwards in four main stages – Kindergarten, Primary, Secondary and University [where] there is also a large Technical College, a Clerical Institute, and special schools for blind and other handicapped children" (Kuwait Oil Company Limited 1963: 74). The following figure shows an aerial view of the secondary school at Shuwaikh captured by KOC in 1963.

*Figure 5.2: Aerial view of the Secondary School at Shuwaikh*



**Source:** Kuwait Oil Company Limited (1963: 71)

For medical services, by 1960 the company led the state to establish two large hospitals with a capacity of more than 100-beds in each. All in all, within a few decades of operations, the company worked alongside the Kuwaiti government to build 140 schools with 2,600 teaching staff, two large hospitals with advanced technology and numerous clinics in various provinces (ibid.). Here, the following table shows medical facilities that the company established before 1960 in various towns around Kuwait.

*Table 5.1: Medical facilities established by the company between 1948-1960*

<b>Town</b>	<b>Medical Facilities</b>	<b>Year of Establishment</b>
Ahmadi	24-hour Clinic and Hospital	1948 and 1960
Magwa	130 beds Hospital	1948
Mina al Ahmadi	Small Clinic	btw 1950-1960
Raudhatain	Small Clinic	btw 1950-1960
Shuwaikh	Small Clinic	btw 1950-1960
Wara	Small Clinic	btw 1950-1960

**Source:** Kuwait Oil Company Limited (1963: 55).

In the detailed investigation of these projects as part of the analysis in the remainder of this chapter, I would argue that it is vitally important to recognize the influence and contribution made by KOC's parent governments, the British and American governments. As noted earlier in Section 5.2, this is mainly because colonial rule at the time was central to both the negotiation and implementation process of the concession. Thus, when considering their involvement, the projects under discussion here I would argue also represent activities that are part of the colonial expansion and strengthening strategy. In fact, close relations between KOC and its parent governments made it impossible to ignore the fact that these projects can act as tools which allowed its parent governments to exercise (colonial) authority over Kuwait. According to Klaus Dodds (2005: 174), colonial practices were often "justified on the basis that the [major] powers [are claiming] to help to civilize backwards peoples" (Section 2.6.2).

In term of the analysis of private authority, the important aspect here is that these projects not only improve the well-being of the local people but also increase the importance of the role that the oil company played in both the local and national community in Kuwait. Although the intention of the company in taking such a role is still questionable, the position allowed the company to carry out activities traditionally undertaken by the state giving the oil company status as a "semi-public and private" identity. According to Lipschutz and Fogel (2002: 125), this eventually leads to the exercise of "private regulatory authority" (see Section 2.4). Because such regulatory power could give the company a tremendous amount of advantages in the market that they operate in, it is perhaps possible to say that the prospect of gaining a powerful position of authority acted as a motivation for the company to take the role in the local and national community mentioned above. In connection with the arguments laid out in Chapter 2, we can therefore argue that private authority that emerged from projects discussed entails two main elements. First, private authority is a function of the claim of private actors to represent a socially progressive or perhaps a morally transcendent position which Biersteker and Hall have labelled "moral authority" or "normative moral authority" (Section 2.5.3). Second, private authority is a function of the role of private actors to carry out activities traditionally undertaken by the state with a "semi-public and private" identity (Section 2.1).

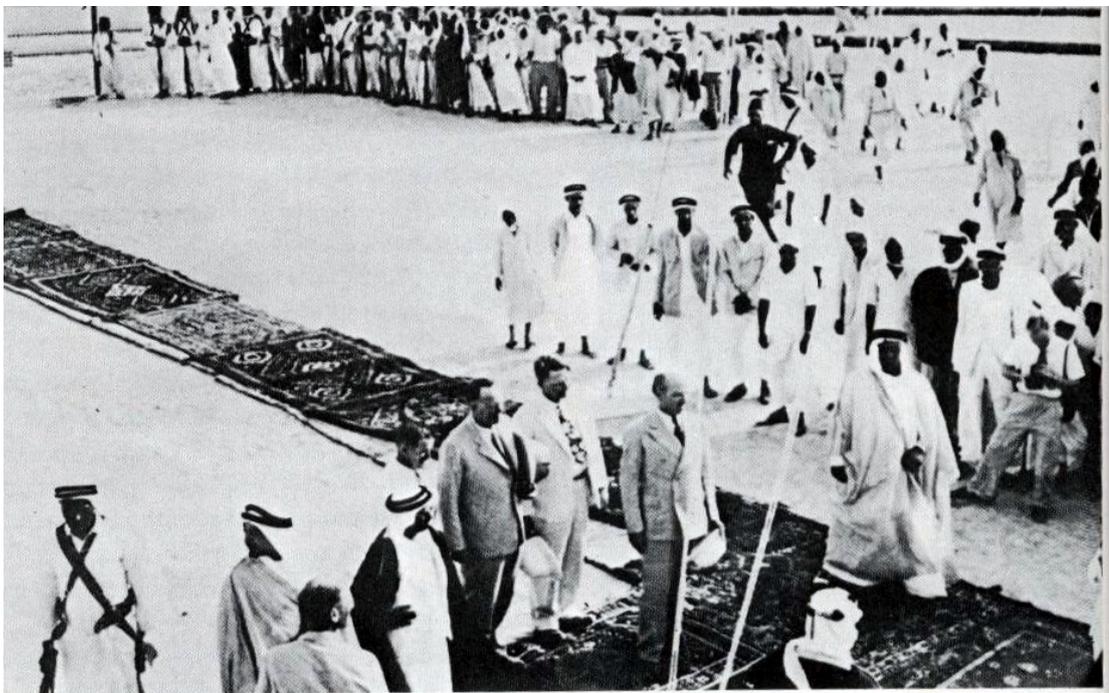
The interesting observation that can be made here is that both of the two elements of private authority discussed above highlight the transfer of some of the functional responsibilities and authority of the state to private actors. Thus, I would argue that the development of this kind of private authority heavily relied upon private actors taking over responsibilities where states do not want to provide these services and providing expertise where states do not have adequate knowledge (see Section 2.5.3).

Due to the fact that the responsibilities and expertise discussed here were shaped by colonialism, I would argue that it is vital to analyze these activities in relation to their colonial rulers (see Section 2.6.2). According to Timothy Mitchell (2002), these activities are part of domestic arrangements which only became possible under a larger structure of colonial empire. As a result, it is only possible to measure and understand the significance of these activities through a universal model “based upon taking certain historical experiences of the West as the template for a universal knowledge” (Mitchell 2002: 7). Thus, through this view and given the fact that the colonial empire had a major influence over the process of gaining and implementing the Kuwait oil concession, I would argue that the analysis of private authority here is very much subjected to understandings of colonial authority. In particular, colonial authority that is exercised through influences over the way in which the oil concession was negotiated and implemented. This ranges from diplomatic efforts that supported the oil company in their quest for the concession to political connections that assisted the oil company in their operation of the concession.

Although the oil was available in commercial quantities, due to the Second World War, operations had to be suspended in 1942 because of a shortage of necessary supplies and manpower (Kuwait Oil Company Limited 1963). With the end of the war in 1945, all operations resumed and the company began to produce up to 30,000 barrels per day. The first commercial shipments was then exported in June of the following year, totalling 797,350 tons by the end of that year (Chisholm 1975: 81). At the opening of the pipeline on 30<sup>th</sup> of June 1946 (see Figure 5.3), KOC Managing Director at the time, Sir Philip Southwell, congratulated the Sheikh with the following words:

*“the success that has, so happily, crowned our efforts would never have been possible without Your Highness’s unfailing patience, loyal friendship and close collaboration, the excellent work of our Kuwait personnel, and the technical skill and large resources of this Company, in which British and American interest and personnel are so happily blended” (Southwell 1946: 2).*

Figure 5.3: Sheikh Ahmad al Sabah at the opening of the pipeline on 30th of June 1946



Source: Kuwait Oil Company Limited (1963: 22)

The statement emphasizes the importance of governmental relations and how this contributes hugely to the success of the exploration and operation. It also further highlights the crucial role that resources and expertise play in the process as mentioned throughout the chapter (Section 2.5.3). As a result, it is hardly a surprise to find that the company put great emphasis on improving their knowledge and building positive political relations with the host government. Clear evidence of this can be found from the record of their investment policies. For instance, according to reports found from KOC’s publications, it was revealed that throughout their operations, the company invested massive amounts of time and effort into

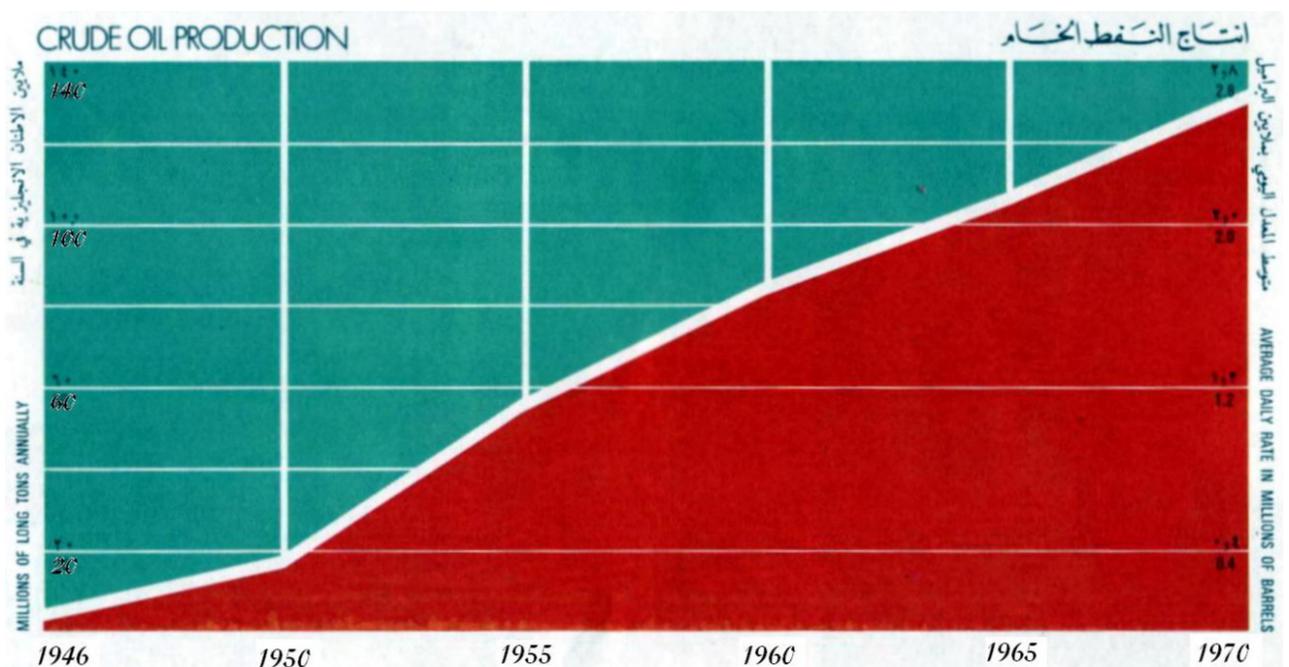
developing its technical skill and technological capability (Kuwait Oil Company Limited 1968; Sharikat 1963). They also spent great amounts of resource to improve their political relations where the focus was not only on the local and national government but also with the local community (Kuwait Oil Company Limited 1963).

As noted, while expertise allowed the company to take prominent position in establishing and developing the Kuwait oil industry, positive relationships made it easier for them to operate. For example, (1) skills in exploration, extraction, production, transportation, and distribution meant that the company was virtually in full control of the oil industry and (2) close relations with the local people meant that the company was able to carry out their day-to-day activities more smoothly. Thus, expertise and political relations are keys to the overall success of the concession. We can say, therefore, that these factors directly link to the private authority of the oil company. In this, I would argue that the important aspect here is the contribution and influence such factors had on the emergence and operation of private authority.

From the first commercial shipments in 1946, the oil resources of Kuwait have been developed steadily and KOC began to extend their exploration to other regions. During the next five years, one hundred additional wells were completed in Burgan and in 1951 an exploratory well was drilled at Magwa. This then followed by another exploratory well drilled at Ahmadi in late 1952, both revealing the existence of oil in commercial quantities (Ministry of Finance and Oil 1970a: 17). A year later, Magwa and Ahmadi were brought into commercial production and together with Burgan, Kuwait produced almost 43 million tons by the end of 1953 (Chisholm 1975). Further exploratory wells were drilled at Umm Gudair in 1954 and at Dibdibba in 1959, however, both were suspended without encountering oil of any commercial values (Kuwait Oil Company Limited 1963: 24). Based on these developments, the national income grew steadily, oil revenues were utilized for infrastructure development. Based on work already initiated by the company, these included projects in areas such as education, health and local business (Sharikat 1960). As a result, the oil industry became a significant actor within Kuwaiti economic, social and political policymaking.

With further investment in exploration, Kuwait’s oil production continued to expand and annual production continued to increase reaching 100 million tons in 1964, 135.2 million tons in 1970 with 700 producing wells in operations and around 150 million tons in 1972 (Kuwait Oil Company Limited 1964, 1970b, 1972). As shown in Figure 5.4 below, these numbers were not at all surprising as the crude oil production in Kuwait has been rising steadily and rapidly ever since the first commercial shipments in 1946.

*Figure 5.4: Crude oil production from 1946 to 1970*



Source: Kuwait Oil Company Limited (1970b: 6)

During this rapid expansion period, alongside concentrating on the operations, the company again continued to strengthen its public relations department. And with close co-operation with the government, the company continued to organize many projects such as supports for the local business, improvements for the local workforce and creations of work for the local people, all of which aimed to create positive relationships with both local enterprise and the local community. Exploring the argument made by Keon Chi that the use of private actors through public-private co-operations or partnerships can deliver better public services (Chi 2003), the remainder of this section analyzes different projects highlighting co-operations between the Kuwaiti government and the oil company (see Section 2.5.1). This

analysis concentrates on community services development projects undertaken as a result of the process of such co-operations. This will further demonstrate how the process can lead to the emergence and exercise of two forms of private authority called “market and moral authority” proposed by Biersteker and Hall (Biersteker and Hall 2002) (Section 2.5).

As a result of the oil found and the first commercial shipments in 1946 which followed by rapid rise in oil production as examined, further examination of the Kuwaiti case shows that this did not only increase the company’s wealth but also hugely improved Kuwait’s prosperity and the welfare of its people. As the Kuwait Institute of Economic & Social Planning (1969: 3) announced in 1969, “the oil revenues brought a new economic nourishment to the country, the city was rebuilt and many governmental and business buildings were erected... the oil revenues were [also] transferred to people in [various] forms”. As already briefly discussed, apart from the company’s expertise to operate efficiently, the company’s policy to support local communities and businesses has played a vital part in this overall success (Kuwait Oil Company Limited 1960b) (Section 2.5.3). Thus, it is possible to argue that “local involvement” was essentially at the core of the company’s business policy from the outset (Kuwait Oil Company Limited 1963).

In depth investigations of the case study have indicated that one of the main areas the company seemed to concentrate in an effort to strengthen relationships with the local population was “commercial relations”. Thus, in many documents published by KOC, they emphasized the fact that “most of the company’s needs for equipment and materials are supplied through local merchants and many of its services, such as engineering, construction, the general maintenance of equipment, plant and building and the hire of vehicles, are handled by local business firms” (Kuwait Oil Company Limited 1970a: 4). Although this is the case, the analysis however showed that this only became possible in the later years of their operations as a lack of local supply in the early days meant that practically everything required for the Company’s operations had to be ordered from manufacturers overseas. Consequently, large stocks of drilling equipment, mechanical parts, building materials, etc. had to be stored in the company’s warehouse (Kuwait Oil Company Limited 1963).

As time went on and oil productions grew across Kuwait, many local merchants eventually became more accustomed to the company's business. As a result, it became possible for the company to order items locally. Already keen to establish positive relationships with local businesses, the company's commercial policy was not only to obtain substantial quantities of supplies and commodities locally, but also to expand a wider range of local purchasing through working with local businesses. In this, they began by encouraging the Kuwait merchants to submit competitive offers against suppliers from overseas by setting up the special Local Purchase Division in different towns to allow the Kuwait merchants to come in and discuss any offers (Kuwait Oil Company Limited 1960b). The company also arranged meetings between their supply personnel and representatives from local businesses to answer any business issues and discuss the day-to-day needs of the company (Sharikat 1960). According to the company's annual report, the total of payments to local contractors for direct contracts, sub-contracts and rentals reached £3,949,178 in 1960 (Kuwait Oil Company Limited 1961: 38).

The policy to concentrate on building relationships with local populations through "commercial relations" as it turned out not only built positive relationships with local businesses but also gave the company a great position in advising both local and national government about the way business enterprise should develop and operate (Kuwait Oil Company Limited 1960b). This position highlights the private authority that the oil company had in Kuwaiti local and national markets. In particular, oil-related markets which involve business of buying/selling things like heavy machines, construction materials, and engineering equipments. In the context of the analysis of private authority, this kind of private authority can be regarded as "market authority" (Biesteker and Hall 2002: 43) (see Section 2.5.2). Further, Saskia Sassen argues that markets "are increasingly dominated by deregulation, privatization and the growing authority of non-state actors" (Sassen 2002: 91). It can therefore be argued that this market authority emerged from the company's ability to influence the way in which the government governs business enterprises in the market place (Section 2.5.2 and 2.7).

From the investigations, the most interesting aspect of overall influence that the company had on the development of businesses and business markets is their

relationships with local business enterprises. Their position allowed them to guide local businesses in whichever direction they see fit. At one stage, as mentioned in the company's annual report, local contractors were contracted to carry out major constructional and other works for the company (Kuwait Oil Company Limited 1960a). The mood of the business relations at the time was captured as the company stated in one of its published papers that "[during the late fifties and early sixties], virtually all the constructional work has been carried out by local contractors who work in the closest and happiest co-operation with the company's engineering department" (Kuwait Oil Company Limited 1963: 43). In 1958 alone, the company placed contracts for construction and orders for supplies and equipment in Kuwait totalling £8,750,000 in value (Sharikat 1960, 1963). By 1960, supplies were ordered from over 200 merchants, either directly from their stores or against orders placed with them by the company (Kuwait Oil Company Limited 1960a).

According to the Kuwait Institute of Social Planning (1969: 3), a consequence of increases in local construction works was "the creation of new crafts such as blacksmithy, carpentry, and opening of shops for repairing cars, equipment and various kinds of appliances". This further confirms that fact that business relations go hand-in-hand with the success of the oil operations and country's development as a whole. Evidently, much of this creates not only more efficiency in the oil operations and local development, but also gave KOC more influence on the overall infrastructure of local business enterprises.

Alongside the strong link with local business enterprises, another factor which contributed significantly to the way in which the company built relationships with the local community is the development of the Kuwait local labour force. Again, similar to local businesses, at the beginning of the operations, there were virtually no qualified Kuwaitis available for technical posts. So, although it had been stated within the 1934 agreement that "the company shall employ subjects of the Sheikh as far as possible for all work for which they are suited" (Kuwait Oil Company Limited 1934a: 8), the company used their right to import skilled and technical employees. In this, to meet nearly all the requirements for skilled and technical staff, the company recruited Indian and Pakistani labour and used mostly skilled British and American workers as supervisors (Winstone and Freeth 1972).

The pattern of recruitment adopted by the company was however not to last as the extensive scale of the operations the company faced meant that the demand of the labour force reached over 15,000 men in the early 1960 (Kuwait Oil Company Limited 1963: 48). As a result, together with large-scale building and civil construction projects connected to Kuwait's rapid economic growth, a strain on the market for local labour began to appear. This then resulted in more imports of labour from neighbouring Arab countries. As the government was already clear about their intention to have as many Kuwaitis working for the company, the company saw this situation as a great opportunity to simultaneously strengthen their ties with the government and the local community. Thus, working with the local government on the development of a local educational system (Kuwait Oil Company Limited 1960a), the company established the KOC Training Centre which was developed into training schools where Kuwaitis and Arabs were taught a specialised syllabus in skilled trades. The Kuwaitis and Arabs were also given preference over other nationalities to attend and eventually employed by the company upon graduation from the centre (Sharikat 1960).

With the completion of the initial major construction projects and the greater amount of work carried out on behalf of the company by local contractors and the workforce, it became possible for the company to reduce much of the foreign labour first brought in to cope with the construction and operations. As stated by the company "this reduction, whenever possible, has been achieved gradually as normal resignation and retirements" (Kuwait Oil Company Limited 1960a: 28). The long term aim, as the company continued to stress, was to see Kuwaitis filling more responsible positions in the company from 1960 onwards.

Moreover, the company also prided themselves on being an organization which contributed heavily to the Kuwait educational system (Kuwait Oil Company Limited 1960b). Here, they kept close relations with the Kuwait Education Department, "advising them of [the company's] future manpower needs in the hope that they will be able to find likely recruits, and if necessary plan their education and training accordingly" (Kuwait Oil Company Limited 1960a: 28). The company believed that this was vitally important if young Kuwaitis were to qualify with appropriate skills

and knowledge. Working with the Kuwait Education Department, these qualified young Kuwaitis were recruited annually for training in subjects related to the oil industry. In the training scheme, the company provided various courses such as a three-year Craft Training Course in artisan skills, a two-year Assistant Operator Training Course for staff posts in production, terminal and refinery operations, and a four-and-half year Accountancy Training Course most of which was taken in the UK or US (Kuwait Oil Company Limited 1960b: 4). Further, university scholarships were also awarded to Kuwaitis for graduate and postgraduate degree course in fields related to the oil industry.

Parallel to the developments in local construction and the labour industry discussed above, the company also provided numerous other development projects for the community. These included building projects of housing estates, clubs, sport fields, medical centres, mosques and churches, which although primarily aimed for employees, also provided enormous benefits to the town (Kuwait Oil Company Limited 1960a; Sharikat 1960). Thus, alongside supporting their own employees, the company managed to set up itself as ‘providing’ the local community with ‘development’ illustrating that they had brought better welfare to the people in the area. Since social welfare development is traditionally considered a responsibility of the state, these projects can provide us with important evidence of the transfer of “functional responsibility and authority” of the state to private actors (Lipschutz and Fogel 2002: 124). The next section focuses on providing examples of this.

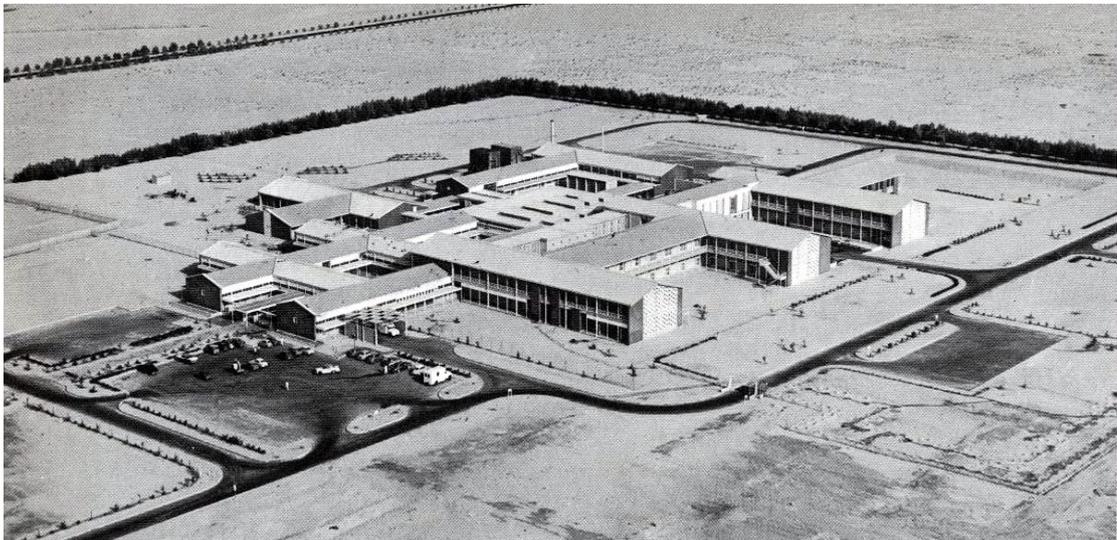
### **5.5 Social Welfare and Moral Authority**

As discussed above, a positive relationship with the local community was vitally important to the company’s operations. So, apart from the basic benefits such as wages, trainings, and facilities that were provided for employees of KOC which aimed to help improve the efficiency of the overall operations, it has been found that the company also carried out other activities which made huge impacts on the social welfare of the local community. The analysis of these activities is extremely vital to our understanding of the nature of private authority in the form of “moral authority” (Section 2.5.3). As noted in Chapter 2, this is mainly because such a form of

authority involves the claim of the actor to exercise “socially progressive agendas” which I argue captured by these activities. Thus, this section investigates the impacts made by KOC by concentrating on those company projects that were truly considered beneficial to community welfare.

As already mentioned briefly in the earlier section, since entering into the oil agreement with Kuwait, one of the main projects which I see to be amongst the company’s major public services was their active role in the development and operation of public health care. For instance, in 1947, the company opened its first hospital with 130 beds in Burgan (Kuwait Oil Company Limited 1963). Although primarily this aimed to serve the company’s employees, the hospital also provided services to other individuals in the local community. Closely managed by the company, the Burgan hospital served the company and local community for more than 12 years before transferring its services to the new 200-bed hospital at Ahmadi in 1960. Captured by KOC in 1961, Figure 5.5 below shows an aerial view of the hospital.

*Figure 5.5: Aerial view of the Southwell Hospital at Ahmadi*



Source: Kuwait Oil Company Limited (1961: 49)

This new hospital, named Southwell Hospital after the Company’s first Managing Director, Sir Philip Southwell (Kuwait Oil Company Limited 1960a), was far more advanced than the one at Burgan. The hospital was fully air-conditioned and

equipped with the latest technology and relatively advanced medical, surgical and ancillary facilities (Kuwait Oil Company Limited 1963: 55). To the community, the hospital not only provided a comprehensive diagnostic and treatment service but also provided basic knowledge which helped the community prevent many illnesses. In this, the company arranged activities such as health education, the examination of meat, food stuffs and water, and active operations against pests, especially flies, all of which aimed to better community welfare (Kuwait Oil Company Limited 1964).

To put the impact that the hospital had on the local community into perspective, we only need to look at the medical treatment statistics of 1960. According to the company's annual report, it was revealed that the hospital carried out over 7,900 medical examinations with 1,776 operations performed. The number of outpatient attendances totalled 188,591 with 4,987 admissions to hospital itself (Kuwait Oil Company Limited 1960b). The role of the company in social welfare services became more and more important to the locals and hospital services continued to be the most appreciated public service that the company provided. From the hospital's records, nearly 140,000 patients (including employees and their families, governments, contractors and general public) received the company's 24 hours free of charge treatment in 1973 alone (Kuwait Oil Company Limited 1973a: 15). With 50.5% of these patients being the general public (*ibid.*), it is undeniable that the company's hospital service proved to be at the heart of Ahmadi community's social welfare.

All of the hospital services mentioned above of course could not be achieved without investment from KOC. So, considering that the community relied heavily on the services of the Southwell Hospital, KOC's presence at the time was indispensable to the social welfare of the local community, both as a contributor and regulator of welfare services. Because such a role is traditionally associated with activities that are responsibility of the state, this observation therefore reflects Knill and Lehmkuhl's argument that private actors have been increasingly engaged in authoritative roles that were previously undertaken by the state (Knill and Lehmkuhl 2002). Thus, the role of KOC in the community here, I argue, is somewhat state-like. This involves local community accepting the company as contributor and regulator of welfare services. As authority is a social commodity that "must be publicly

claimed and acknowledged by the subjects of the exercise of power” (Hall 2005: 66), this acceptance signifies private authority that KOC had in the local community.

In the mid-1960s, the Kuwait Oil Company (KOC) continued to invest heavily in local development. Apart from taking initiatives in planning and building KOC employees’ housing, Ahmadi’s hospitals, schools and other public facilities in the 1950s and early 1960s as already highlighted (Kuwait Oil Company Limited 1963: 51), further developments also saw the company provide the town with paved roads, electricity and gas, piped water, sewerage and telephone systems (Ministry of Finance and Industry 1965). As a result, KOC ended up taking over responsibility in establishing and maintaining other basic public services from the Kuwaiti government, particularly in the town of Ahmadi. For instance, public gardens and parks that were originally built by the company which although technically belonged to the State of Kuwait and were regularly used by general public, were maintained by the company. All in all, the company tended over 15 acres of gardens and parks in Ahmadi (Kuwait Oil Company Limited 1962).

By 1970, Ahmadi is “a self contained township with an industrial and shopping area...where banks, insurance companies, travel agencies and post office are also accommodated” (Kuwait Oil Company Limited 1970a: 4). The company also provided the town with its own mosques and churches, cinemas, restaurants and guest houses, food stores, a fire station and a bakery as well as sport clubs for swimming, football, cricket, tennis and golf (Kuwait Oil Company Limited 1970b). Apart from this, the company co-operated with the local authority in establishing an industrial and business area in East Ahmadi (Kuwait Oil Company Limited 1972). Going hand-in-hand with the policy to support the local commercial businesses mentioned above, this project aimed to help with the setting up of local business enterprises so that many services formerly provided by the company would be undertaken instead by Kuwaiti businesses (Kuwait Oil Company Limited 1973a).

Through the local community development projects discussed throughout this section, the company was again able to further strengthen their relationships with both the government and the local community. As argued, this is a major contribution to the success of the company’s operations bringing huge revenues to

the company. Although I argue this has been one of their main policies and a routine practice since the early years of operation, the company have only highlighted the importance of this in one of their published documents in 1973 stating that they are “taking much care to improve and push the development of the local community [further]” (Kuwait Oil Company Limited 1973b: 10). Following such statements and continuing with their previous work in the local community, in 1973 and in co-operations with local authority several projects were carried out, including the drilling of water wells, the installation of street light poles, the construction of a public park and a library (ibid.).

On training and education, the company intensified and expanded its schools and technical colleges to meet the growing demand for manpower in the country. Other community services at the national level that KOC took an active part in included their scientific contributions to the governmental scientific institutes such as College of Petroleum and Minerals at Dhahran and Kuwait Institute for Scientific Research (KISR) (Qubain 1966). The company was also involved in many public events such as national celebrations and festivals where they provided the community with fuel and related products at reasonable prices and helped in setting up modern and efficient facilities (OPEC Information Department 1978). The company also continued to advise the government on the way to develop modern building construction in the country concentrating on high standards of safety (Kuwait Oil Company Limited 1976).

The new projects discussed above again not only confirm the company’s position as an important actor in the development of the State of Kuwait but also provided another example of continued public/private partnership between the KOC and the Kuwaiti government. As the observation suggests that this continued partnership has been driven by financial interests, I would concur with Peter Evans’s argument that firms and states have shared economic interests (Evans 1995). This is however without controversial as it could lead to conflict, especially in developing countries where people often feels unfairly treated when most economic gains from such partnership fallen into the hands of private actors. As proved in the case of Iran (Chapter 2), such feelings could gather pace and lead to social unrest. According to Pamela Burke, although such cooperation with firms could exacerbate potentially

violent societal actors, “at times, it is in the interest of a state to remain out of negotiations between [private] actors and societal actors, such as cases in which the state can place blame on private actors or the state does not have the resources to be involved” (i.e., finances, technologies, expertise, etc. as discussed) (Burke 1999: 230). Thus, it is therefore possible to argue that states not only engage in public-private partnership for economic gains but also political gains. As we have learnt from the evidence found in this case, states tend to abdicate their responsibilities and authority to private actors under circumstances and conditions that suit their needs (Section 2.5.2).

## **5.6 Conclusion**

In this Chapter, the analysis of the 1943 Kuwait oil concession has provided an insight into the historical development of public and private relationships. This is particularly clear from the observation of public and private interactions between the main actors in the case, namely, the Anglo-Persian Oil Company (now the British Petroleum Company), the Gulf Oil Corporation of America and the Kuwait government. In this, the evidence has highlighted the significance of private actors (APOC and Gulf) within the process of gaining the oil concession. Although this is the case, it was found that the analysis of private authority cannot be done by simply concentrating on these private actors alone. Rather, because the investigation reveals that the process involved many actors both public and private, the focus of the analysis was mainly on the interactions of these actors. Ranging from individual representatives, local and national government officials, the state and the oil companies, this is done through a close examination of their roles and behaviours in relation to each other. Thus, in order to better understand the impacts that private actors have on the process as a whole, each was analysed as part of the emerging pattern of public-private authority that resulted from the negotiation and implementation of the concession. As a result, it is clear that the analysis of public-private relationships makes a significant contribution to understanding the emergence of private authority as a whole.

The main relationship which was found vital to the analysis of public-private authority was that between the oil company (APOC and Gulf) and its parent government (the British and American government). This is mainly because the establishment and early development of Kuwait and its oil industry was in the colonial period. Evidence suggests that the British colonial influence in the country was vital to the success of the oil company. For instance, the presence of the British government in the region opened an opportunity for the oil company to negotiate for the first oil concession in Kuwait. After initial support, the case however shows that it was the prospect of financial and strategic gains that led to dramatic increases in the British involvements in the negotiation process of the concession. In this, the methods utilized by the British government ranged from organizing political representatives to cooperate with the oil company in dealing with the task of gaining the oil concession to offering financial aid to the oil company where needed. Thus, it can be argued that public-private relationships often rely on cooperation that is based on political and economic interests.

The relationship between British and American counterparts illustrates the significance of private cooperation in the process of gaining the oil concession. As noted in the chapter, this is simply because cooperation between private actors with mutual goals is more effective than a head-on competition. For example, Anglo-Persian Oil Company (APOC) and Gulf Oil Company (Gulf) only managed to finalize the 1934 oil concession agreement through the formation of Kuwait Oil Company Limited. However, I am not arguing that the only way to gain the oil concession is through private cooperation, instead, I am pointing out that private cooperation can certainly strengthen the position of individual actors in the negotiation, both politically and economically.

Further analysis of the case has shown that the success of the 1934 oil concession also owed significantly to the company's resources, particularly their knowledge and expertise. As these resources acted as the main instruments in generating revenues that responded to the desperate need for economic prosperity and better welfare for the people of Kuwait, the case has clearly shown how knowledge and expertise can be used to gain authority. In this particular case, APOC and Gulf has substantially utilized the power of knowledge and expertise in gaining the oil concession. In the

context of the theoretical framework discussed in Chapter 2, the kind of private authority that results from this is associated with what Biersteker and Hall refer to as “authority of authorship” and Sinclair has labelled “epistemic authority”.

As discussed in depth in the chapter, the implementations of the oil concession during the 1950s and 1960s indicates that the oil company has often taken on the role of a quasi-public actor. For instance, KOC took the responsibility to establish and maintain many public functions and regulations within the market. As they were heavily involved in activities of local enterprises and businesses, KOC often advised local and national governments on how to develop and operate business enterprises. In this, they even entered into contracts with many of the local business enterprises to promote the development of the local community. Thus, apart from the fact that these roles are typically associated with the public sphere given the company status as a quasi-public actor, their actions also signifies “market authority”.

Moreover, the case study shows that KOC was also involved in many welfare services and ‘development’ projects. For instance, they were involved in establishing and maintaining schools, hospitals and other public services for the local community. In this, they were providing health care and technical training both to their employees and to the general public, all of which are with minimal input from the state. Thus, I concur with Pamela Burke’s argument that oil MNEs sometimes take on “quasi-public” roles, “such as providing for social services, health services, and education, that are traditionally associated with state/public responsibilities” (Burke 1999: 231). This signifies the forms of private authority that KOC had developed in and over the local community. Because such private authority is associated with the claims of private actors to represent a socially progressive or perhaps a morally transcendent position, according to Biersteker and Hall, it is related to what they call “moral authority” or the “authority of normative”.

Although the study of private actors and its authority has been fairly recent, the analysis of the case study has shown that the significance of private actors is nothing new and must be understood as deeply rooted in the historical development of public/private interactions. From the beginning, the observation of the process of gaining and implementing oil concessions illustrates the authority of private actors.

As revealed, this authority can often be linked to the role of private actors and their activities in relation to both the state that they interacted with and the community that they operated in. Therefore, the analysis of private actors in relation not only to the state but also other actors involved is vital to our understanding of how private authority emerges and operates across different political systems.

## **CHAPTER 6: Private Authority and Public Oil Ownership: the Case of the Oil Nationalization in Iraq**

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Building on the previous analysis of the oil industries of Saudi Arabia, Iran and Kuwait, this chapter attempts to identify different forms of private power and authority through the analysis of the Iraq oil industry. In this context, the main objective is to highlight how a detailed analysis of the role of public and private actors in the past oil concession agreements can help us better understand the nature of various modes of private authority. In order to achieve this goal, a heavy emphasis will be placed on relations between the oil companies and the governments involved during the negotiation and implementation of various oil concessions in Iraq. Despite the focus mentioned, the analysis will not only be on how private authority is gained but also on how such authority is exercised and developed. This is done through the analysis based on the argument that the process of gaining an oil concession can create moments of private authorization, power and control.

The choice of Iraq as a case study for this thesis is significant for a number of reasons. First, because Iraq is one of the major oil producers in the world, the country plays an important role in both national and international politics (Malone 2007). Second, its geographical location meant that Iraq was involved in many historical moments of conflict around oil which presents a great platform for the analysis of interactions between political actors, both public and private. Third, it may also be argued that Iraq's oil industry demonstrated that oil is not merely a source of wealth but a commodity which greatly shapes the direction and evolution of Iraq's politics and economy (Alnasrawi 1994). Fourth, Iraq's oil hugely dictates its government's relations with Western governments and oil companies. Thus, the case study offers us a great platform to explore the relationships between such actors. Also, with the argument made by Noman Kafani that the discovery of "oil brought more harm than good to the area" (Kanafani 1982: 13), the chapter investigates the circumstances under which the Iraqi oil concessions were granted and the conditions under which the oil companies were operating.

The investigations of Iraq's oil industry in this chapter have been undertaken through the use of number of sources including literature on the history and development of Iraq's oil industry, historical archives holding documents on Iraqi oil concessions and historical reports recording events on political relations between Iraq and the major powers involved. In this, most of the data collected are provided by the Middle East Documentation Unit at the University of Durham, the British Library Research Archive, the Iraq National Oil Company and the Iraqi Ministry of Oil and Minerals. With the complex nature of the analysis involved, sources relating to both the formal and informal negotiations around the concession agreement and social/economic development projects involving various actors will also be used. Again, the analysis of these materials will concentrate solely on the arrangements made in the concession agreement between the state and corporate actors which provide us with an indication of how private actors gain and practice various forms of power and authority.

The chapter is organized into five parts. The first part opens the chapter with historical accounts of the creation of Iraq with the focus on interactions between new and old major powers. The second part briefly introduces a history of Iraq's oil since early 1900s given that without knowing something of the history of the industry, it is almost impossible to understand how actors interact in different circumstances. The section also concentrates on the analysis of events surrounding the negotiation of the oil concession. The third part of the chapter then explores these events further by focusing on the role of each actor in the diplomatic process to finalize the agreement of the oil concession. In the fourth part, I try to strengthen the analysis by discussing the nationalization of the Iraq oil industry as a way to investigate private and public relationships in more detail. Lastly, I summarise the arguments made and try to link the analysis of the evidence gathered to the overall theoretical framework of the thesis.

## **6.1 Iraq: Making of State**

Once known as Mesopotamia, Iraq was once home to some of the earliest civilizations, including Sumerian, Babylonian, and Parthian cultures (Archibald

2001). As a nation, Iraq did not exist until the Twentieth Century as it was a frontier outpost of the Ottoman Empire run by the Turks from the middle of the Seventeenth Century (Sluglett 2007) (see Map 6.1). In this, the lands that were to become the territories of the modern state of Iraq were the three provinces in the Empire, based on the towns of Mosul, Baghdad and Basra (Tripp 2000). At the height of its power, the Ottoman Empire spanned three continents controlling most of the South-eastern Europe, the Middle East and North Africa. Comprising 29 provinces and numerous vassal states, the empire was vast in size, sprawling over many regions (Cleveland 1971).

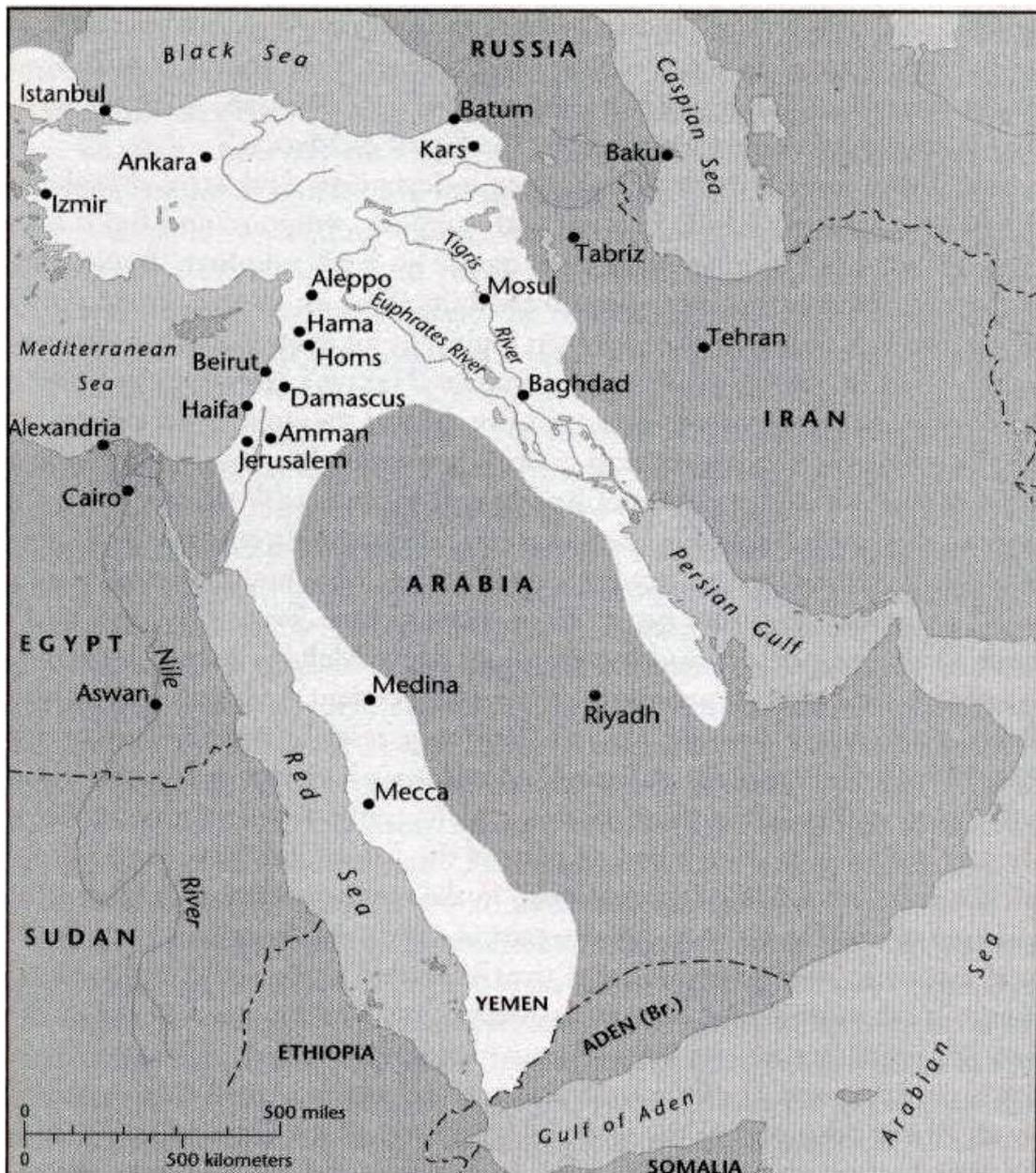
The disadvantage of administering such a large empire was the staggered cost of maintenance. Together with a corrupt and inefficient bureaucracy as noted by Marian Kent, an inability to gather sufficient funds led the Empire into huge debt with the British and other European financiers (Kent 1976). Consequently, by the beginning of the Twentieth Century, the European governments managed to acquire important economic and political influence in the area (Penrose 1978). As will be discussed in more depth, this would prove to have great consequences to the establishment and development of the oil industry in the region as a whole.

Due to the fact that the Ottoman Empire was of strategic importance in the world, there were great interests in the area from the European imperialist powers (Alnasrawi 1994). To Russia, the Empire was considered to provide free access to the Mediterranean. To France, the Empire answered their expansionist ambitions particularly in Syria and the North African provinces. To Germany, through their large railway construction concessions in the late Nineteenth Century, the Empire had been the main instrument in their challenge to the British predominance in the Persian Gulf and beyond. To Britain, the Empire also offered strategic ground to maintain and strengthen their influence in the Persian Gulf region against Russian and German threats (Kent 1976).

The strategic considerations mentioned were however not the only reasons why Britain was so interested in the region. Although oil was not yet as important as it was going to become, the rise in the importance of oil especially for military reasons was more than enough to attract British attention to the area with such promising oil

potential (MacMillan 2003). Over the next decade, the British government was to undertake a significant diplomatic and military effort to gain influence over this area (Sluglett 2007). The detail of these efforts will be shown later on in the chapter.

*Map 6.1: The Ottoman Empire in the late nineteenth century*



Source: Cleveland (2004: 159)

Considering the strategic importance of the Ottoman Empire discussed above, it is hardly a surprise to find that the area which was to become Iraq today played a key role in numerous conflicts among major powers at the time. It is through these

conflicts here that public-private interactions emerge. Thus, these conflicts are considered to be crucial to the analysis of public-private authority under discussion in this chapter.

Following the course of history, effort undertaken by the British military authorities during the war led to the British occupation of the three Ottoman provinces of Mosul, Baghdad and Basra. This brought major changes to the way in which power and authority operate within the three areas. These changes, I would argue, significantly affected the people of the area. According to a report carried out by the British Army in 1916, the occupation had both political and social impacts on the people. Here, Major H. Stewart, a Military Governor of Basrah at the time wrote:

*“The capture of [Mosul, Baghdad and Basra] and the consequent general consolidation of the British position have had a marked political effect on the inhabitants of the town who now begin to realize with certainty that after the War they are faced with some of British Administration. Political problems of various kinds will shortly arise for settlement, not the least of which will be the adjustment of relations between the Sunnis and Shias, the latter community having received unequal treatment from the Turks and will now claim equal treatment from the British” (Stewart 1916: 30).*

The interesting point to note here is the issue of political relations during the period of transition. As Major Stewart explained, one of the political problems that will arise from the capture of the three areas is the people of the area adjusting to the British administration and vice-versa. In this, having highlighted the reality of the British occupation and other political problems that needed tackling in the area of occupation, Major Stewart continues to give examples of some of social problems that needed dealing with at the time. In this, he pointed out the two social matters that most affected the local people in a report stating that:

*“The two matters which at present most affect the ordinary life of the people are those in connection with the supply of labour to the Controller of Labour and of boats to the Officer Commanding Mahailahs. Every effort is being made to meet the requirements of the Army in respect of labour and at the same time of render the*

*inevitable burden on the people as little irksome as possible. [Also, every effort need to be made to ensure that] they are well paid for their work” (ibid.: 30).*

The evidence presented here has not only highlighted a number of changes in the activities of the people of the area but also in their relationships both within the communities and within the administrations. Thus, it is therefore possible to argue that the British occupation of the area resulted in significant changes that ultimately altered both political and social climate of the country.

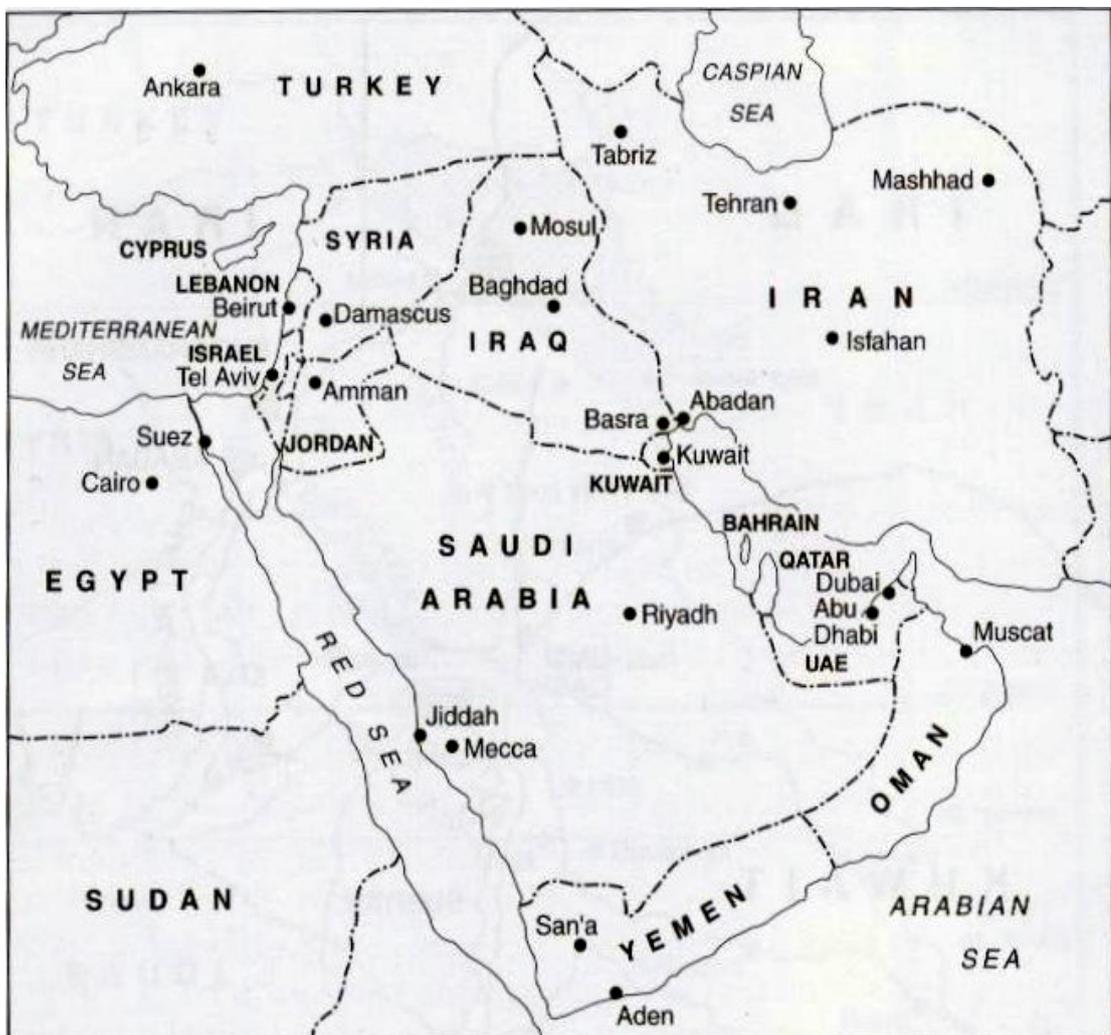
As the occupation subsequently led to the consolidation of the new state of Iraq, a League of Nations mandate under British administration in 1920 (Tripp 2000). In the context of the relationship between the two nations, although much of the power and authority to run the country officially belonged to the Iraqi government, most of the decisions involving diplomatic work of the country still needed approval from the British government. For example, all trade negotiations of the country at the time were undertaken with strict supervision of the British administration. This again highlights the British influence in the management of the country, hence the power and authority to govern. Such influence is particularly clear when it comes to activities relating to strengthening British’s position in the Persian Gulf region. For instance, the British administration often used their position as protector to pressure the Mesopotamian (now Iraqi) administration to establish treaties with other countries in the region with the claim that it is part of the responsibility of countries under British protection. In this, a “Review of Civil Administration of Mesopotamia for 1920” noted that:

*“British maritime and commercial interests in the Persian Gulf, together with its political importance to the Government of India, had thrust upon us responsibilities there which could not avoid. Our position with regard to the ruling Arab chiefs along its shores had gradually been consolidated. We had entered into treaty relations with the Sultan of Masqat, the Shaikhs of the Trucial Coast and of the Island of Bahrain” (Civil Administration 1920: 1).*

Despite the fact that Iraq was still very much under the shadow of British power, the consolidation of the new state of Iraq can be considered as a new chapter in the

history of Iraq. This is not only in term of the history of the state’s formal institutions, but also the history of the new regime of power. Here, the upsurge of nationalism after the new state was created would contribute to the shape of the new Iraqi state and the course of events during the post-war years. After a dozen years of struggle, Iraq was finally emerged as an independent political entity in 1932 (Penrose 1978). Today, Iraq is officially known as the Republic of Iraq and sharing borders with Kuwait, Iran, Turkey, Syria, Jordan, and Saudi Arabia (Nyrop 1979) (Map 6.2 below).

*Map 6.2: Iraq in the Middle East*



Source: Tripp (2000: xx)

Situated at the heart of the oil-rich region, the modern history of Iraq over the past century is littered with violence and struggle. Together with the British occupation of

the country at the very beginning of a new chapter of its history, following the independence of the country over seventy years ago, its development and relationship with the outside world has been heavily dictated by political and historical forces in the form of colonialism, nationalism and oil politics (Sharp 2003). As the historical evidence suggests, these factors proved to have enormous impact on the country as it led to many conflicts including the war with Iran in the 1980s, the invasion of Kuwait in 1990, the war for Kuwait in 1991 and the US-led invasion of Iraq in 2003 (Malone 2007; Tripp 2000). Consequently, Iraq today has “became a battleground for competing forces” (BBC 2009: 1), making any development within the country an almost impossible task. These competing forces, I would argue include those public and private entities such as insurgent forces, religious movements, major governments and oil companies that are constantly seeking political and economic gain (Section 2.5.4). In the context of the analysis in this chapter, the current situation provides us with two great lessons for further analysis. First, despite great the development of the Iraqi oil industry, the political and social environment of the country is still very much under-developed. Second, oil politics has played and is still playing an important role in the overall development of the region.

So, in order to better understand the emerging pattern of public-private authority that resulted from the dealings within the Iraq oil industry, detailed examinations of the history of the industry needed to be undertaken. In this, the next few sections investigate the establishment and development of the Iraqi oil industry from the very beginning with the focus firmly on questions of authority and public-private interactions between major actors involved.

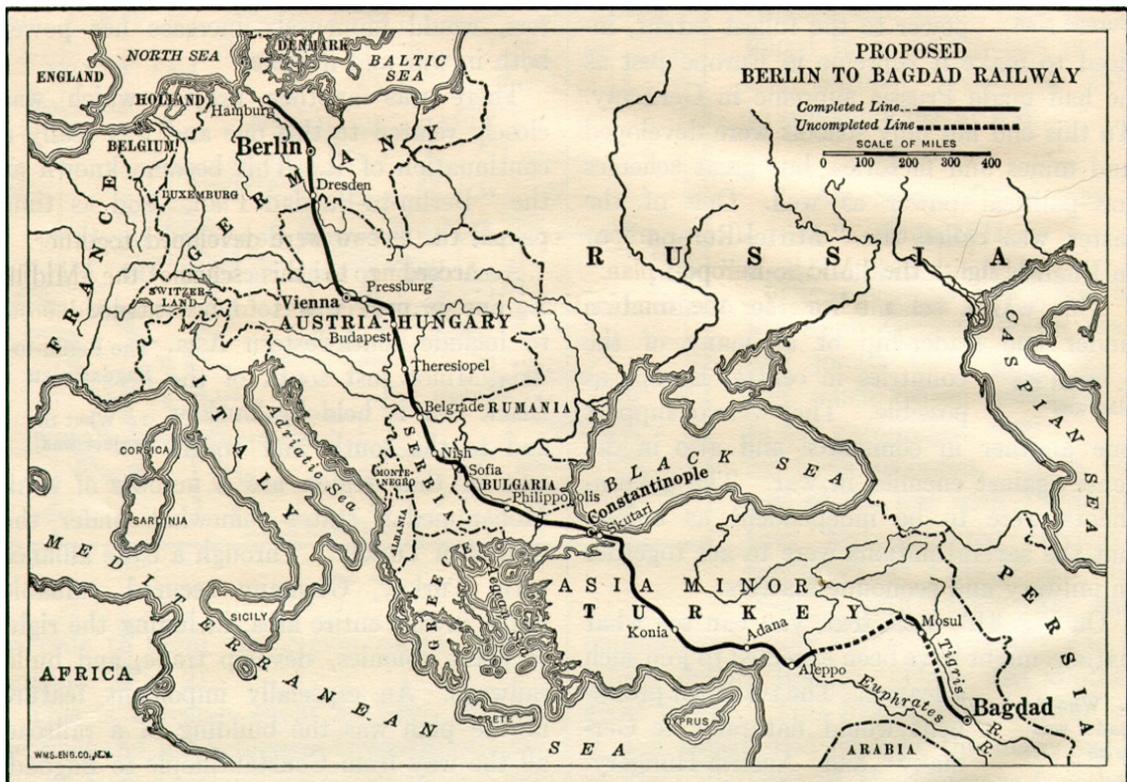
## **6.2 Oil Development: Iraq’s Oil Industry**

The history of oil interests in Iraq goes back to the latter part of the nineteenth century when Iraq was still part of the Ottoman Empire. No different from other countries in the region, these interests began with the intervention of the Western oil companies and their parent governments (see Chapter 3, 4 and 5 for examples). The very first interest in obtaining concessions in the region came from the Germans. In

1890, through the Ottoman Railway Company of Anatolia (ORCA), the Deutsche Bank<sup>26</sup> obtained a concession to bring a railway line to Ankara (Mikdashy 1966). This was then followed by another concession for the Baghdad Railway (Map 6.3), which included mining rights covering 20 kilometres on both sides of the projected track (Issawi 1966: 199). As noted by Karl Hoffmann (1927), this was stated in Article 22, Section 1, of the concession document dated March 5, 1903, of the Baghdad Railway Contracts:

*“The concessionaire may exploit mineral deposits discovered in a zone of 20 km wide on either side of the road bed by following the laws and regulations pertaining to the deposits but without these consisting of a privilege or a monopoly for him” (Baghdad Railway Company 1903).*

Map 6.3: Proposed Berlin to Baghdad Railway



Source: McMurry (1919: 6)

<sup>26</sup> Literally “German Bank”, Deutsche Bank is an international universal bank with a broad private client’s franchise. Formed in January 1870, major projects in the early year of the bank included the Northern Pacific Railroad in the US (1870) and the Baghdad Railway (1888).

The British involvement on the other hand came in 1901 when William Knox D'Arcy, the British financier who had already obtained an extensive concession in Persia<sup>27</sup> (see Section 4.2), began to negotiate with the Turkish authorities for a concession in Iraq (Kent 1976). Considerable diplomatic assistance from the British government helped D'Arcy to gain a good position in the negotiations. D'Arcy's progress was however halted by the revolution of the Young Turks in 1908 (Mikdashi 1966).

Principally aiming to modernize Turkey, the revolution had an immediate effect on Turkish-British relations. By the middle of 1912 the oil concession in the area was still no nearer to any conclusion for any of the parties involved (Kent 1976). Agreed that their collaboration would make it much easier to negotiate with the Iraq authorities and in turn give them a better position from which to obtain the concession (Iraq National Oil Company 1973b), the Germans, the British and the Dutch eventually collaborated to establish the Turkish Petroleum Company (TPC) in 1914. The move consequently brought "together interests who for over a decade had been contesting for a firm foothold in the Middle East" (Blair 1976: 31). Following on from Cutler, Haufler and Porter's analysis, this is somewhat to be expected as they have noted that firms often cooperate "to reach mutual goals" (Cutler et al. 1999: 334). Although they continue to assert that not all forms of inter-firm cooperation produce authority, particularly short-term cooperation involved in a certain one-off deal or transaction, I would still argue "inter-firm cooperation" to be a distinguishing feature of private authority (see Section 2.4.2). For Cutler et al., this is dependent upon "the process by which inter-firm cooperation is routinized and institutionalized over time". Thus, the investigation of how TPC was established and developed in the quest to gain the oil concession in Iraq is the key to understanding the emergence of private authority here (ibid.: 334).

With the British government supremacy and naval control of Persian Gulf waters at the time, it is not surprising to find that the majority of shares in the TPC were

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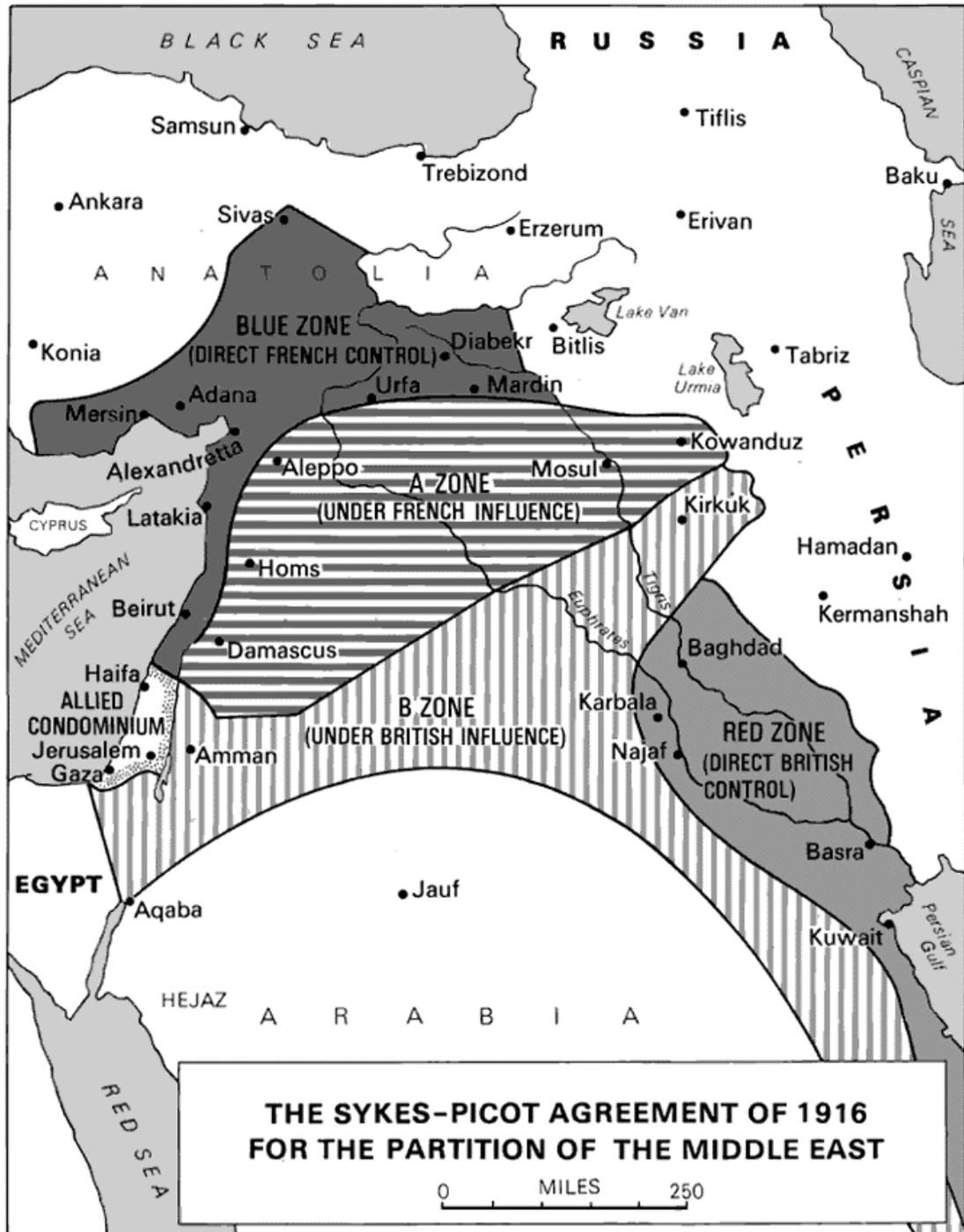
<sup>27</sup> See Chapter 4 for detail of the D'Arcy Concession, Section 4.2.

owned by British interests. In this, the shares of the TPC were allocated in the manner which saw 50 percent go to the Anglo-Persian Oil Company (now BP), and 25 percent each to Royal-Dutch/Shell and Deutsche Bank. Following the establishment of the company, TPC's first move to obtain the oil concession in the area came when they made an application to the Ottoman authorities, then ruling Iraq. Due to political and economic circumstances at the time, the application was swiftly accepted with the Ottoman government promising to offer the TPC an oil concession covering Mosul and Baghdad (Kanafani 1982). The only condition was that the Ottoman Empire was allowed to reserve the right to determine the percentage of shareholding in the company (Ministry of Oil and Minerals 1970b). The approval of this application indicates that one of the factors that lead to public-private cooperation is the prospects of economic gains. In this, Peter Evans (1995) also argues that companies and states often share interests. Thus, it is possible to argue that the public-private cooperation in the signing of the concession relied greatly on each actor involved trusting in the possibility that they could gain benefits from such relationship.

The promise however was never ratified as it was interrupted by the outbreak of the First World War (Ministry of Oil and Minerals 1973). The war not only affected the progress of the application but it also changed the structure of the company as it led to the seizure of the German share in the TPC by the British government. For the Ottoman Empire, the war had a far more tragic consequence as it led to dismemberment of the Empire. The revelation then resulted in major powers taking steps to prepare political re-division of the Middle East (Cleveland 2004). As France and Great Britain had long-standing political and trade relations with the Ottomans, they were at the heart of the negotiation over defining spheres of influence in the region. Eventually, the two were to come to an agreement and signed the Sykes-Picot agreement on May 16<sup>th</sup>, 1916 (Styan 2006). According to Noman Kanafani, in the conclusion to the agreement "Mr. Sykes and Mr. Picot colored certain areas on the map blue and declared then to be under French control... other areas were colored red and fell to the British" (Kanafani 1982: 17) (see Map 6.4). Although, the Sykes-Picot agreement was only considered to be a preliminary settlement because of the on-going conflict of the war, for the Ministry of Oil, the Sykes-Picot

agreement virtually decided the destiny of Iraq's oil (Ministry of Oil and Minerals 1970b).

*Map 6.4: The Sykes-Picot Agreement of 1916*



Source: Sachar (1976: 95)

By the end of the First World War, oil proved to be a commodity of high strategic value (Mikdashī 1966). As a result, the post-war period saw major powers struggle for the control of oil resources. Foreign oil companies also gained the benefits as they often received great support from their parent governments when seeking for oil concessions abroad (Kent 1976). Such developments were to characterize the post-war oil agreement in the Middle East with one notable example being the negotiations for a new agreement in the two years following the war. The new found relationship between the oil company and its parent government here is therefore considered key to the success of many concessions that followed in the area.

Based on the preliminary settlement of the Sykes-Picot agreement during the war, the new agreement saw British diplomacy aiming to recapture northern Palestine and the Mosul province which was reputed to contain great riches in oil from France (Mughrabī 1966). Although very reluctantly, due to British dominance after the war, the French eventually had to give up the area (Stivers 1982). By 1920, an overall settlement had been reached and the San-Remo oil agreement was signed on April 25<sup>th</sup>. According to Margaret MacMillan, the agreement was “roughly that the British would get what became Iraq and Palestine... and the French would get what became Lebanon and Syria” (MacMillan 2003: 1). This new agreement now allowed the two governments either state-led or private development of Iraqi oil. Also, with the British recapturing the two provinces, the new agreement granted the French 25 per cent of the net output of crude oil which the British might acquire from the Mesopotamian oil fields and should a private oil company be in charge, France was to be granted 25 per cent of its share (Kanafani 1982). In compensation for its shareholding privileges, the French government promised to facilitate construction of two pipelines to transport oil from Iraq and Persia to seaports on the eastern Mediterranean (Stivers 1982).

Although other TPC shareholders were also satisfied with the settlement, the San-Remo agreement was not to last as the progress of historical relationships between the TPC and the Iraqi national government took another unexpected turn with intervention by the American oil companies (with the backing of the US government) (Stivers 1982).

### **6.3 Control of Crude Oil: the Iraq Petroleum Company**

In the quest to claim their oil interests in Iraq, the US State Department sent their first communication letter on the 12<sup>th</sup> of May, 1920, reminding Great Britain of her obligations to practice an “open door” policy in the British mandate (Dann 1988). Originating from British commercial practice, because the “open door” policy is internationally recognized as a policy for equal commercial opportunities to all parties of all nationals and not to be exclusive to any one country, the US government argued that the San Remo agreement was violating such a policy. As stated in the letter to the British government, the US interpreted the policy to mean “the freedom for any company to obtain without discrimination, oil concessions in mandate areas, particularly in Mesopotamia” (Kanafani 1982: 18).

Although the claim was considered to be reasonable and legitimate, due to supply shortages during the war which gave rise to a fear that the United States might be running out of oil, the Americans were against the agreement only because it was a threat to their share of the international oil trade (Blair 1976). Hence, the challenge “amounted to no more than the greed of one [major power nation] checking the cupidity of its rivals” (Mejcher 1976: 105). As it turned out, this intervention by the Americans was to create substantial effects on the progress of the Iraq oil industry as a whole.

Together with widespread concerns over the foreign monopoly of all foreign oil resources and an eagerness to involve the United States in Iraq’s oil, the US government introduced a bill to establish a government corporation to develop oil resources in foreign countries (Blair 1976: 32). With the approval of the bill, a consortium of the largest American oil interests was formed and began negotiating for the participation in the Turkish Petroleum Company in 1922. Led by the Standard Oil Company of New Jersey (now Exxon), the negotiations lasted six years before finally reaching a formal agreement (Stivers 1982). As the process of negotiation in this period here allowed fruitful public-private interactions between Standard Oil and its government, I would argue it also allowed patterns of public-

private authority to establish and develop. In this, the relationship between the two actors will be investigated further in the latter sections.

On the progress of the concession, despite ongoing requests from the Americans to wait until their application for the participation in the company finalized, the TPC decided to start negotiations with the Iraqi government for an oil concession in Iraq on the basis of a promise given by the Ottoman government. With diplomatic efforts from the British, the French and the Dutch, the TPC eventually obtained the concession on the 14<sup>th</sup> of March 1925 (Iraq Petroleum Group of Oil Companies 1962). Through the concession, the company gained many exclusive rights relating to oil development in the country. In this, such rights were clearly stated in Article 1 of the agreement:

*“The Government [of Iraq] hereby grant to the Company... the exclusive right to explore, prospect, drill for, extract and render suitable for trade petroleum, naphtha, natural gases, ozokerite and the right to carry away and sell the same and the derivatives thereof” (Turkish Petroleum Company 1925c: 1).*

As the agreement was to last 75 years covering 24 plots of 8 square miles, each for exclusive exploitation (Turkish Petroleum Company 1925b), the presence of the company was to have significant influence not only on the way the country develops its oil industry but also to the way the country set out and governed its economic, political and social system. As noted in Chapter 2, these influences signify the power and authority that the oil company possesses from gaining the agreement. In return for granting the oil concession which in turn allowed such influence to develop, the Iraqi government was to receive royalties at a flat fee per ton of the oil found. Royalty payments were also linked to oil company profits, however they would only become effective twenty years from the date of the agreement (Turkish Petroleum Company 1925a). To put simply, this agreement was signed on the basis that the Iraqi government would gain economic benefits and efficiency in the development of their industry by yielding power and authority to the oil company. Therefore, it can be said that public actors would only transfer its power and authority to private actors when there are financial benefits to be gained (see Section 2.5.2).

Although the American oil companies did not so much participate in the quest for the 1925 Iraqi oil concession, their powerful position as suppliers of nearly three-fifths of total foreign demand put them in a great bargaining position. This is especially true with the Standard Oil Company of New Jersey as they were controlling over 50 percent of the UK oil market (Blair 1976). Eventually, the pressure asserted by the US government and the powerful position of the American companies was too strong to ignore and in turn forced the British government to again restructure the share in the TPC. Consequently, on the 31<sup>st</sup> of July 1928, Near Eastern Development Corporation, which was owned equally by Standard Oil Company of New Jersey (now Exxon) and Mobil, was granted a 23.75 per cent share in the TPC. The remaining shares were distributed 23.75 per cent each to the Anglo-Persian Oil Company (now BP), Royal-Dutch Shell and Compagnie Française des Pétroles (CFP) whilst 5% went to the Participation and Exploration Company (Alnasrawi 1994). Following such changes, the company was then renamed the Iraq Petroleum Company (IPC) in 1929 (Iraq National Oil Company 1973c).

American entry into the company led to some of the TPC shareholders insisting on retaining the principle that restrictions should be placed on the actions of members of the company. This resulted from fears that the production from the Iraqi fields would be kept down once some of the TPC shareholders won exclusive concessions elsewhere in the area. Hence, to ensure the “self-denying” principle among the company’s shareholders, the famous Red Line agreement was signed in 1928 “simultaneously with the admittance of the American interests in the TPC” (Kanafani 1982: 20). In this, the agreement states that “no party should, unilaterally and in any manner, obtain any concession in the areas covered by the agreement, unless this was done through the Turkish Petroleum Company or its affiliates and that the concession should be owned jointly by them unless they would otherwise agree” (Ministry of Oil and Minerals 1970b: 6).

Following the conclusion of the Red Line agreement, the concession of 1925 which contained the principle of providing equal opportunities to all became obsolete. Accordingly, in June of 1929, IPC started the negotiations with the Iraqi government to revise the agreement (Iraq National Oil Company 1973b: 3). In this new round of negotiations, very much like the negotiations in the 1925 oil concession agreement,

the presence of the British government in the country again played a prominent role. This not only highlights the influence of major powers in the region at the time, it also once more confirms how the support from parent government is vital to the success of the oil company in reaching agreements with the host country such as Iraq in this case. In this, evidence of such influence and its importance can be found from various reports and correspondents of the British administration on Iraq. For example, “Letter of Appointment” from the 1930 clearly illustrates the influence that the British administration had over the Iraqi government at the time. In this, the letter stated:

*“[According to] the Treaty and Protocol which regulate the relations between His Britannic Majesty and the Government of Iraq... His Majesty the King of Iraq agrees to be guided by the advice of His Britannic Majesty tendered through the High Commissioner on all important matters affecting the international and financial obligations and interests of His Britannic Majesty” (High Commissioner for Iraq 1930).*

Taking advantage of the economic crisis that had tremendously affected the country’s finance and the British influence over the country’s international and financial matters as discussed above, the company was eventually able to gain a new concession agreement without any problems. Signed on March 24<sup>th</sup> 1931, this new concession agreement even eliminated any competitive features found in the previous one (Rendel 1931). To the advantage of the IPC, the new exclusive concession also covered an area of 35,126 square miles, compared to 192 square miles only under the previous agreement (Iraq Petroleum Company 1931).

Realizing that the Red Line agreement could not prevent non-members from seeking concessions within the red-line area (Blair 1976), by June, 1931, the Iraqi government opened up all of Iraq’s territory outside IPC’s area to bidders for oil concessions. According to Mikdashi (1966: 72), the move was aimed to introduce new competition which would allow “far more favourable [concession] terms” for the Iraqi government. As a result, the following year saw the emergence of an independent organization, the British Oil Development Ltd. (BOD), which incorporated Italian and German capital participation.

Well-aware of such developments, the IPC's representative in Baghdad promptly reported to the shareholders companies of the progress by stating in the telegram that "the Iraqi government is to commence negotiations on May 1 with the [British Oil Development]... which presumably will seek a concession for all or a part of the remaining oil bearing lands in Iraq" (Stimson 1931: 1). Following the negotiation, the IPC's worst fear came true and the BOD successfully obtained a concession covering an area of 41,302 square miles (Kanafani 1982). Trying to prevent the BOD and other competitors gaining other concessions, IPC began to secure as many concessions as possible within the red-line area<sup>28</sup>. Aware of the country's oil potential, the company gradually seized control of Iraq's oil by "taking full advantage of the political, economic and social conditions which overshadowed the country [at the time]" (Iraq National Oil Company 1973b: 3). Any efforts by the Iraqi government to reduce the company's outright control over Iraq's oil by granting BOD with exclusive concessions in the country offered little resistance as BOD's slackness in carrying out its operations eventually led to IPC taking over the company by secretly purchasing its shares (Blair 1976).

Under the IPC, the BOD was later converted into one of IPC's operation companies which was later named the Mosul Petroleum Company (Edens 1979). Apart from this, the company also obtained a third concession covering an area of about 93,000 square miles in Iraq (Map 6.5). With the IPC securing all three major concessions under negotiation at the time, all Iraqi territories became an exclusive concession for the IPC resulting in the company controlling the petroleum rights to virtually the whole of Iraq (Ministry of Oil and Minerals 1970a). This domination was highlighted by the IPC's chief executive as he warned other oil companies that any "competition for oil in Iraq was not economically sound" (Mikdashi 1966: 72). In simple terms, the success in obtaining concessions meant that the company "laid hands on the entire hydrocarbon wealth in the country" (Iraq National Oil Company 1973b: 3). This total control of Iraqi oil resources meant that the IPC would eventually gain great control of the Iraqi oil industry with much of the power and authority in establishing and maintaining rules and regulations.

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<sup>28</sup> See Map 3.3 in Chapter 3



powers and private enterprises (Section 2.4.2). This implies that “states are facilitating the private authority of actors” (Cutler et al. 1999: 230) (Section 2.2.3). Notably, the investigation of early negotiations between the IPC and the Iraqi government highlights diplomatic efforts made by the British and the French in supporting the oil companies in their cause. Continuing with this theme, this part of the chapter focuses on the post-war developments in Iraq’s oil industry. In my view, this period offers us great opportunities to further observe private and public relationships where the analysis of the complex nature and behaviour of oil companies in their interactions with the Iraqi government and Iraqi society can be undertaken. According to Pamela Burke, this should then pave way to greater understanding of the evolution of oil companies’ roles from private actors to quasi-public actors (Burke 1999).

The early post-war development of the Iraqi oil industry witnessed the oil companies beginning to dominate. By means of the oil concessions obtained, the IPC succeeded in subjecting the Iraqi oil industry and market to their control (Hussein 1973) (Section 2.2.3). Not only did the company become responsible for mapping out and executing the policy of oil exploration and extraction, they also managed Iraq’s whole industrial system of exporting crude to foreign markets (Iraq National Oil Company 1973b). Apart from this, the company moreover planned the entire policy of the oil industry and finally fixed the prices by which Iraqi government returns were calculated.

As for the policy of production, the companies raised and reduced rates of production as they pleased (Iraq National Oil Company 1973c). On the investment side, the IPC set out its policy to acquire large amounts of capital from Western enterprises to set up an extractive oil industry with a high productivity, depending on integrated equipment and advanced technology as well as expertise and highly skilled labour. The interesting thing to point out here is that these activities were undertaken without any input from the Iraqi government. Thus, I would argue that these activities which see the government transferring their responsibilities to the company depended very much on the availability of private resources both in terms of finance and expertise.

In general, the exercise of power and authority of groups or individuals is very much tied to how they utilized their resources. According to Joe Painter (1995: 16), “the ability of different groups and individuals to pursue strategic action varies, as does its effectiveness, depending on the differential availability of resources”. In this, he continues to assert that resources may take various forms including discursive resources such as “knowledge, information, language, symbols and ways of understanding” (Painter 1995: 16). In terms of the concept of power and authority, Painter suggested that “unequal access to such resources accounts for differences in political power” (ibid.: 16). Considering his view, I argue that the use of resources such as expertise and technical knowledge in this case is part of the company’s strategy to gain a dominant position in the Iraqi oil industry and market. This dominant position in turn allowed them to govern in such a way that they could direct the industry to suit their own interests. Therefore, it is this governing power in the Iraqi oil industry and market here that, I would argue, eventually led to the emergence of private authority in the form of “market authority”, as proposed by Biersteker and Hall (2002) (see Section 2.5.2).

Through their dominant position in the Iraqi oil market, the company made many decisions without any involvement or concern for the opinion of the Iraqi government. For instance, the company repeatedly “declined to answer requests by the Iraqi government for detailed information on oil sales prices and expense, in accordance with Article 10 of the 1931 concession agreement” (Mikdashi 1966: 101). This meant that the interests and needs of Iraq were totally ignored. Thus, it is therefore not much of a surprise to find that with increasing dominance in the Iraqi oil industry from the oil company, there was evidence of growing strains between the Iraqi government and the IPC. In this, there were a number of reports indicating the tensions among the nationalists in the Iraqi government toward the British company over the issue of their dominant position in Iraq. Some even used such issue as an explanation of the unsatisfactory political and economic development in Iraq of the period (Penrose 1978).

According to the Ministry of Oil and Minerals (1973), the strains were due to four main reasons: first was the government’s demand to raise the royalty charge; second was the devaluation of the pound after Bank of England abandoned in 1931 the gold

standard which led to sharp differences in the price used to calculate royalty payments and local markets; third was the admission of Iraqis shareholders in the IPC as well as replacing foreigners with natives when possible; and fourth the government's demand to increase crude oil production and export. Together with this, Iraqi politicians often criticized the company for delaying the operation, particularly with the construction of its pipeline, which ultimately resulted in a loss of government revenue (Mikdashi 1966). So, despite the steady development of the oil industry in the country, the strains between the two actors were increasing steadily.

Coupled with the strain in their relations, the exploitation of Iraq's oil industry and market by the oil company not only reduced the government's authority within the industry, it also led to isolation of the oil sector from the rest of the Iraqi economy. As a result, non-oil sectors of the economy faced unsteady growth making oil the only important source of revenue in the economy (Iraq Petroleum Group of Oil Companies 1962). The situation meant all development in the country depended heavily on oil revenue creating a distorted, one-sided, colonial economic structure, "whereby the backward Iraqi economy became directly related to the international capitalist market, suffering the impact of fluctuations and crises on the one hand, and subjected to the domination of foreign oil capitalism which controlled the oil sector, on the other" (Iraq National Oil Company 1973b: 4).

The dependence of the Iraqi economy on the small oil revenues paid by the IPC without permitting the Iraqi government to check their authenticity "made it impossible for Iraq to realize a comprehensive economic development and stopped it from developing the productive sectors such as agriculture, industry, etc." (Ministry of Oil 1975a: 4). Such a situation in turn gave the monopolist companies "a pressing political power against any progressive regime ruling the country" (Ministry of Oil 1975b: 5) (Section 2.3.1). As discussed extensively in Chapter 2, this political power is vital to the establishment of private authority (see Section 2.4.3).

Given the political power and authority that the company held over Iraq, it was clear that Iraqi politicians were increasingly frustrated with the situation. In this, Saddam

Hussein<sup>29</sup> (1973: 10), a Deputy Secretary-General of the Socialist Party at the time, argued that these monopolist companies “were actually a state within the state, not subject to domestic laws” and claimed that their presence was a real danger to Iraqi independence and progress. As criticism grew, the Iraqi government became less than happy with the situation resulting in political tensions which then gathered pace throughout the post-war development period.

In order to free themselves from such a situation, the government realized that there was a need to abolish the concessions that had been allowing oil companies to dominate their oil industry and country over the past two decades. The first move toward doing just that came in 1952. Involving numerous factors notably the Anglo-American competition in the Middle East region that resulted in the so-called 50-50 profit-sharing principle in Saudi Arabia in 1950, the nationalization of the Iranian oil and the conclusion of a similar agreement with Kuwait a year later, the government managed to pressure the oil company to sign the Agreement of 3<sup>rd</sup> February 1952 (Ministry of Oil and Minerals 1970b: 8) (see Chapter 3 and 5).

In its simplest form, the new agreement primarily contained a principle of 50-50 profit-sharing or an assumption of “profit realized in respect of crude oil production operations in Iraq to be shared equally between government and companies” (Ministry of Oil and Minerals 1973: 5). The net profit was calculated by deducting from the posted price, the cost of producing and transporting of the oil found. Also, in addition to the measure of extracted quantities of oil as the sole factor which determined the government share according to the previous agreement in 1931, the new agreement provided other issues such as cost factors<sup>30</sup> that have an important bearing upon the government’s income (Iraq National Oil Company 1972a). Moreover, the new fifty-fifty profit sharing agreement also contained two obvious market advantages over the fixed royalty system of the original agreement. First, the

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<sup>29</sup> In the 1950s, Saddam Hussein was the Deputy Secretary-General of the Regional Leadership of the Arab Ba’ath Socialist Party that led the Revolution Command Council. He later became the President of Iraq in 1979 and captured by US forces on December 13, 2003 during the US 2003 invasion of Iraq.

<sup>30</sup> Cost factor considers element of what should be included and excluded in the cost of oil prices. For more details refer to Zuhayr M. Mikdashi (1966) “*A financial analysis of Middle Eastern oil concessions*”, 111-115.

new agreement was thought to be more self-adapting to market and industrial fluctuations as it was not liable to the distortion through monetary changes that led to tensions between the Iraqi government and the IPC during the implementation of the previous agreement. Second, the new agreement was considered to be more widely accepted as an equitable arrangement in many parts of the world (Iraq Petroleum Group of Oil Companies 1962). Although these facts do indicate that this new agreement does indeed provides the Iraqi government with better conditions than the previous agreement, the implementation of it however proved to be more complex.

The main problem with the implementation of the new agreement was the calculations which were a necessary part of the fifty-fifty division of profits. As the procedures of the calculations were not promptly and meticulously followed by both partners, the misunderstandings and disputes grew (ibid.). As a result, the government and the company were in a constant battle against each other over different issues. Particularly, the issue on what should be included and excluded from the production cost, which was of course a necessary part of the process in calculating the profits of oil production that seemed to be at the heart of the dispute (Alnasrawi 1994).

The on-going dispute created a rift between the two actors with the Iraq government rejecting the cost figures calculated by the oil company and vice-versa. The effect was a substantial overpayment and underpayment which caused further disputes (Iraq Petroleum Group of Oil Companies 1962). To make things worse, the Iraqi government again started to complain against the concession agreements by saying that the agreements have kept all Iraq's oil resources in the hands of monopolist companies and therefore preventing other interests from coming in and contributing to Iraq's development. In the end, the Iraqi government decided to take back control of their lands and began negotiations for the relinquishment of their territories in early 1958. Then, a few months later, the nature of the Iraqi oil relations would change forever with the outbreak of the July 14 Revolution (Ministry of Oil and Minerals 1970b).

In the context of the theoretical framework, it is this revolution that highlights the ability of private actors to adapt strategies to maintain their authoritative position in

the market. In terms of IPC and its continuing activities in the Iraq oil industry, the detail of these strategies is to be discussed in the following section. In this, the last section also discusses other forms of agreement differing from the conventional concession type that was adopted by other private oil companies in an attempt to enter into the Iraqi oil market.

### **6.5 Nationalization: the Foundation of the Iraq National Oil Company**

As mentioned throughout the earlier section, the post-World War I period saw an increase in the British domination in Iraq. This, I would argue, had resulted in transfer of power and authority from the government to the British government and eventually to the British oil company, affecting the political, economic and social development of the country. As a result, there were growing resistances from many officials, particularly the nationalists, in the Iraqi government against the British administration claiming that the British presence in the country was the main cause for the unsatisfactory political and economic development in Iraq of the period. Considering these factors, the outbreak of the July 14 Revolution of 1958 was to many spectators somewhat inevitable (Hussein 1973). Not only did the Revolution act as the final event in a series of regional crises that created a dramatic turning point in the history of the region (Owen and Louis 2002), it also appears to highlight the decline of the major powers' influence in Iraq (Worrall 2007).

The key historical moments contributing to the events of 1958 Revolution were the British occupation of Iraq from 1917 and the foreign oil companies' oil domination in Iraq from 1931. According to the Iraqi government, because these moments led to periods which were very harmful to the Iraqi sovereignty and interests, so much of it generated a feeling of injustice among the Iraqi people within its society (Ministry of Oil and Minerals 1970b). Hence, despite the material 'progress' that the monarchy brought to its people, their failure to liberate the country from foreign domination and exploitation virtually sparked off popular uprisings which then culminated in the July 14 Revolution (Hussein 1973: 8). To the Iraqi people, the Revolution therefore represented a reaction to what the Iraqi government claimed to be an unfair relationship which saw the oil company exploiting their natural resources without

due regard to the needs of the Iraqi people (Iraq National Oil Company 1972b). Looking at the wider context, Irene Gendzier also reminds us that the events of 1958 “must be seen within the context of a wider nationalist challenge to Western control of oil not only in [Iraq or] the Middle East, but throughout the world” (Worrall 2007: 175). To put it simply, the Revolution constituted an important turning-point in the nature of the oil producers’ relationships with the oil companies, particularly those of Iraq. This would have tremendous effects on the role that these oil companies play in the oil industry and with their power and authority within the industry.

Following the outbreak of the Revolution, the Iraqi government held lengthy negotiations with the oil companies in Iraq for three years before any conclusion could be reached. Among some of its objectives, the negotiations aimed at laying down a new oil policy which would free its oil wealth and eliminate the “injustice suffered by Iraq as a result of concessions” (Iraq National Oil Company 1973b: 5). According to the Ministry of Oil and Minerals, this injustice was not only confined to the nature of concessions, “but also involved their implementation” (Ministry of Oil and Minerals 1970b: 9).

Arguing that the Iraqi Revolution of 1958 was the beginning of the fall of “what was considered the most stable and progressive government in the Arab world” (Kanafani 1982: 29), the company refused to respond to any of the Iraqi government’s demands. In fact, the company was trying to hold on to its authority by working together as a private consortium of oil companies to deter nationalization (see Section 2.4.2). In this, the consortium adopted a discriminatory and arbitrary policy aiming at penalizing Iraq by slowing down the rate of economic development (Ministry of Oil and Minerals 1973). Without any consideration to any economic consequences, such a policy was clearly motivated by the consortium’s determination to put pressure on Iraq to foil the nationalization decision. Intending to put more pressure on Iraq, the IPC group further damaged the Iraqi economy by adopting low production levels which resulted in paralyzing a part of oil production, pipes and loading capacity (Alnasrawi 1994). These tactics adopted by the IPC group not only forced the Iraqi government to think hard about the decision to continue with the nationalization, it also highlights the extent of the market power and authority of the IPC group.

Owing to the company's reaction and refusal to what the country considered to be legitimate demands, the government enacted Law No.80 on the 11<sup>th</sup> of December 1961 to protect their rights in the country's mineral resources (Iraq Petroleum Group of Oil Companies 1962). With such a law in action, the government won back around 99.5% of the lands which were in the hands of the IPC, all of which were unexploited (Iraq National Oil Company 1973b).

Clearly angered with how things turned out, the IPC responded in a way which saw them maximizing their power through political connections. A notable example of this is when the company openly used their close connections with parent governments to pressure other oil companies not to get involved in their business in Iraq. For instance, they managed to gain full cooperation from the US government which saw the State Department officials actively telling independent American companies to stay out of Iraq (Department of State 1964). In this, according to the Department's Memorandum of Conversation, Governor Harriman stated that "in the IPC case proved and probable reserve areas were taken away... we wonder whether it is wise for the US oil companies to approve this type of action... we hope you will not take any action which will appear to condone [such] unilateral acts" (Blair 1976: 87).

Together with this, the IPC's long standing connections with the British government through the AIOC also meant that they were able to carry out additional campaigns to discourage other oil companies from taking concessions on any part of the Iraqi land that had been freed from the IPC (Kanafani 1982). The campaign included AIOC's move to openly criticize and question the credibility of Iraq as a safe investment outlet for foreign oil companies (Mikdashy 1966). Due to Iraq's internal political chaos, these British and American campaigns were somewhat more effective than anyone expected as it helped to freeze any development on the lands recovered from the oil companies that may have happened as a result of the Revolution. As the success of the campaign came purely from IPC's connections with their parent governments, the response therefore highlights the substantial amount of private authority that the company had. It also indicates that private

authority is a function of the control of political connections, hence the importance of public/private relations.

Despite the hostile attitudes toward the foreign oil companies (Hussein 1973), a lack of technology, training and knowledge to develop the oil industry forced Iraq to open negotiations for a new relationship with foreign partners (Section 2.4.1). In 1964, to ensure Iraqi interests in the international oil market and development of their own oil production, the government called for a new round of negotiations (Iraq National Oil Company 1974).

The following year an agreement was reached but for several reasons (including the outbreak of the 1967 Middle Eastern war) the agreement was never ratified by the Iraqi government. Instead, the Iraqi government formed the Iraq National Oil Company (INOC) in 1964 under the Law No.11 of 8<sup>th</sup> February, 1964 (Styan 2006; Tripp 2000). After the formation, the INOC was given power through the progressive July 17 Revolution of 1968 which aimed to “consolidate the country’s independence” (Hussein 1973: 11) and establish a national oil industry “free from world monopoly and capable to support the national economy through oil exploitation” (Iraq National Oil Company 1972b: 7). In particular, INOC was empowered to undertake petroleum operations of various aspects both inside and outside Iraq. In this, such operations included exploration and prospecting for oil and transportation, storing and refining for their products, “together with dealing with petrochemicals and relevant equipment and industries” (Iraq National Oil Company 1973d: 2).

Although the INOC was forbidden from entering into any partnerships or granting any concessions to foreign oil companies, the lack of capabilities to efficiently compete on the international market again meant that the government was looking for a new relationship to ensure and protect Iraqi interests in the development of its oil industry. This revelation led to the company signing a service contract with the French Organization for Oil Prospection and Activities, *Entreprise de Recherches et d’Activités Pétrolières* (ERAP), in February 1968 (Figure 6.1). This is then followed by negotiations with the French and Russian oil companies for assistance in implementing the Iraqi national oil policy (Falola and Genova 2005). With the

support of the Soviet Union, the negotiations resulted in the French *Compagnie Française des Pétroles* (CFP) entering into a contract to help INOC to develop the Iraqi oil fields (Shwadran 1977). The involvement of the French oil company in INOC, I would argue, provides a great example of how we can consider private authority to be directly linked to the capacity to provide information, resources and knowledge in a specific arena (Burke 1999) (see Section 2.5).

Figure 6.1: Conference of cooperation between the Iraq National Oil Company (INOC) and the *Entreprise de Recherches et d'Activités Pétrolières* (ERAP)



Source: Ministry of Oil and Minerals (1970a: 140)

## **6.6 Public-Private Partnerships: Operation of Private Authority**

Following the outcome of nationalization in Iraq, the monopolist oil companies were forced to resort to alternative methods to maintain their domination over Iraqi oil. The success of CFP in gaining a contract at the peak of the nationalization process put great emphasis on finding new forms of oil relationships to maintain their domination. Thus, to gain trust and re-build a positive relationship with the Iraqi

government, the company changed their tune and began to act in support of the nationalization. This, I argue, was part of their strategy in an attempt to regain their influence over Iraq's oil.

In this, they pretended to put an end to all forms of oil concessionary conventions, but instead initiated a contractual agreement method to keep Iraqi oil under monopolist control. This alternative however is not so much a 'new' form of monopolist domination as it was still carried out in a peaceful manner with negotiations between the companies and the government being at the heart of the agreement. The only thing which changed was the position of the companies, from "owners of concessions undertaking all oil operations, bearing all burdens and risks and investing large amounts of capital... to a partner in the operations or a supplier of expertise, machinery, equipment and technology" (Ministry of Oil 1975a: 5). Here, the foreign oil companies not only gained a great amount of benefits but also leave themselves free of the problems with production, research, industrialization, etc. without bearing the costs and risks of investment in these operations. Consequently, many foreign oil companies were on-hand when the Iraqi government needed further assistance to develop its oil industry.

In the hope of gaining similar assistance to that which came from an agreement with ERAP and CFP, the government entered into a new agreement with the Soviet Union to bring in necessary finances, machinery, equipment and technical expertise to continue to restart the operations (Galloway and Barnes 1987) (Section 2.4.1 and 2.5.3). The first phase of this cooperation began with the establishment of joint public-private enterprise named "Machinoexport" in June, 1969. The establishment then offered INOC a loan of 25 million dinar with low yearly interest, of course mainly to be used in importing equipment and materials from "Machinoexport" itself (Iraq National Oil Company 1972b: 9). The agreement was then followed by more cooperation between the two nations, in the form of economic and technical cooperation. Signed in Moscow on the 4<sup>th</sup> of July, 1969, the agreement saw the establishment of another joint public-private identity "Technoexport", whereby it provided extra technical expertise on the installation of pumping and degassing stations in various Iraqi Oilfields (Iraq National Oil Company 1973d). Moreover, "Technoexport" also offered additional support to construction of pipeline networks

from the Oilfields to Terminals. A number of other agreements were to be signed in the following few years including an agreement with the Hungarian “Chemokomplex” establishment to assist in the foundation of the petroleum industry in Iraq (Iraq National Oil Company 1973a).

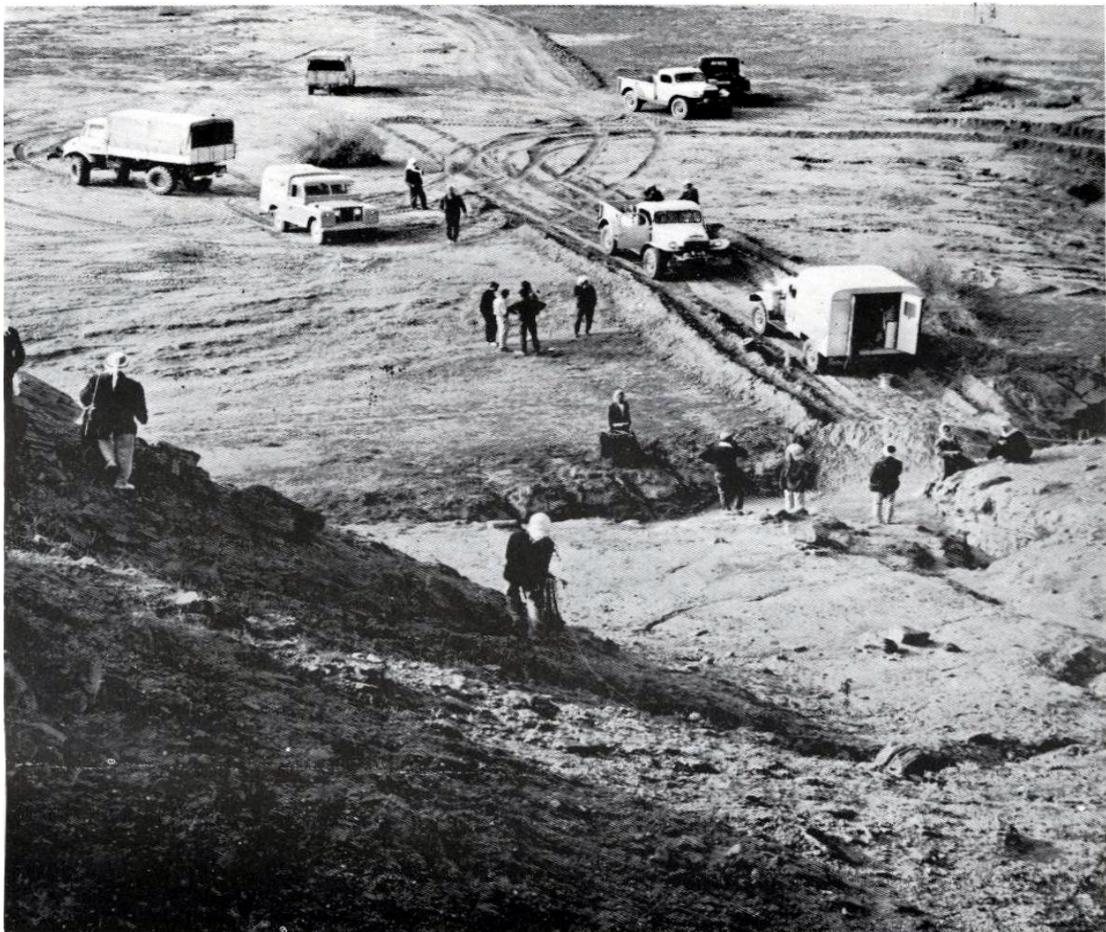
The outcome of the different forms of cooperation mentioned above was the completion of the first stage of the development of Iraqi oil industry, especially in the oilfields around the Northern part of Iraq (Ministry of Oil 1975a). By the middle of 1972, the first shipments of nationally produced Iraqi oil began, increasing the industry’s export at an average of 5 million tons a year (Iraq National Oil Company 1973b). All in all, the contractual agreements that the Iraqi government signed with different foreign companies made great contributions to the overall development of Iraq oil industry. It can even be said that it would have been impossible to develop the industry without the input from these foreign companies through various contractual agreements. As noted, this is mainly due to the lack of resources in expertise and finances. Thus, the dominant position which allows these foreign companies to occupy an authoritative role in Iraq oil industry relied heavily on their ability to provide appropriate resources (see Section 2.4.1 and 2.5.3).

Following the first commercial shipments of nationally produced Iraqi oil in 1972, INOC extended their operations to other lands which were still unexplored at the time. An assembly of three geophysical teams carried out necessary surveys into various areas of Iraq. The first team was responsible for the survey of the Ratawi, Rachi and Jeraishan areas; the second team was involved with the survey in the area of Khabaz Structure and Hammar Lake; and the third team was conducting a survey of the west Buzurgan Structure (ibid.). Greater emphasis on exploration and development in these new areas eventually meant that the Iraqi government through INOC again had to resort to help from foreign oil companies. As a result, they signed a further six exploration agreements with oil companies from the Soviet Union, East Germany, Bulgaria, Czechoslovakia, Hungary and Romania, whereby these companies were given authority to carry out any activities related to surveys and drilling of exploratory wells (Iraq National Oil Company 1973d). Together with normal exploration activities, these partnership companies also assisted the Iraqi government and INOC in preparing and training the technical staff for exploration.

This assistance included providing administrators, experts and technicians to help the Iraqi workforce to develop their skills within the industry (Ministry of Oil and Minerals 1975).

Together with the exploration agreements with oil companies mentioned above, INOC also went back to its old partner “ERAP” to whom they had previously offered a service contract. The new agreement saw INOC cooperating with ERAP in carrying out survey activities. Despite the fact the ERAP was only responsible for survey activities, similar to the other exploration partnership companies of INOC, ERAP also provided assistance by offering on the job training to Iraqi nationals in its operations (CERMAC 1977). Captured by Ministry of Oil and Minerals in 1970, the following figure shows ERAP surveying team at work:

*Figure 6.2: ERAP Surveying party*



Source: Ministry of Oil and Minerals (1970a: 29)

Alongside the contractual agreements mentioned, two more service contracts were signed within the next year or so, one with Petrobras of Brazil and another with the Oil and Natural Gas Commission of India. The contract with the Brazilian company was signed in August of the same year covering three new onshore areas totalling 5,000 square miles (OPEC 1978). This contract however came with one demand which was that if oil was discovered in commercial quantities, INOC would have to reimburse any exploration expenses covered by the company over 15 years without interest. Such a demand is a great example of what has been said about alternative forms of monopolist domination with foreign oil companies making great gains without bearing the risks of investment (Ministry of Oil 1975a). The contract with the Indian company on the other hand was signed in April of the following year covering an area of 2,610 square miles on shore (OPEC 1980).

The contractual agreements discussed in this section again demonstrate that although the oil company can no longer influence the Iraqi oil development through oil concessionary conventions, they could still do so through other methods. This, I would argue, highlights the fluidity of the strategies employed by the foreign oil companies in an effort to maintain their domination over oil resources. As mentioned throughout the chapter, although these strategies tend to change and evolve depending on different situations, it was built on one solid foundation. This was the ability of the oil company to provide resources such as finance, machinery, equipment, expertise and technical knowledge (see Section 2.5.3). According to John Allen (2003: 5), power and authority “is often disguised as resources... we need to disentangle the two... [and] distinguish clearly between the exercise of power and the resource capabilities mobilized to sustain that exercise”. Thus, with the Iraqi government relied on these resources to assist them in developing its oil industry and the foreign oil companies relied on these resources to maintain their domination in the country, it is possible to argue that the power and authority that the oil company gained through the process of securing the oil agreement and concession was a direct result of their ability to utilize resources to their own advantage.

As we have seen the ability to provide resources however is not enough to guide the company to the position of power and authority, instead a combination of the ability to provide resources and cooperate with different actors was the key to the success.

One notable example of this is in the cooperation between the British government and TPC (AIOC) where many considered it to be a vital factor in the success of both the 1925 and 1931 oil concession agreements. Thus, it is hardly a surprise to find that many private actors often seek cooperation with either public or private actors or both to try to strengthen their position (Section 2.4.2). The cooperation between the foreign oil companies and the Iraqi government which led to the creation of public-private partnership enterprises such as Machinoexport, Technoexport, Chemokomplex, etc. discussed above is one prime example of this.

Another interesting point of observation from this case is that these public-private partnership enterprises do sometime act as oil interest groups. As these groups are able to develop lobbying capabilities, they often find themselves in a position of power and authority. This allows them as private actors to influence the public policy decision making process toward neoliberal political and economic reforms. Similar to the way in which the oil company gained power and authority in the Iraqi oil industry, these lobbying capabilities have been generated through the ability to provide expert advices allowing these enterprises to control and direct policy relating to their own industry in such a way that suit their own interests. As Riad Ajami (1979) noted, the presence and activities of the multinational firm have always influenced political, social and cultural development of host countries.

## **6.7 Conclusion**

In this chapter, various oil concessions and agreements in Iraq ranging from the 1925 oil agreement to the 1972 contract agreements of the post-Revolution period have been discussed and analyzed with special attention to the emergence and development of private authority. The analysis of these concessions and agreements has shown the significant role that major powers and private oil companies played in the development of Iraq as a whole, in particular, in the development of its oil industry. Through this position, it was found that private actors gained significant forms of “private authority”. Although this is the case, it was found that to understand the nature of private authority we cannot simply focus on these private actors alone. Instead, in order to develop a further understanding of the implications

that private authority had upon the political, economic and social development of the host countries, these private actors must be examined as part of the public-private relationship.

I began the analysis in the chapter by exploring the history of Iraq. Although Iraq is a relatively new country it has a complex history with early development littered with conflicts between major powers (the Ottoman Empire, British, German, French and Russian). As the evidence suggested, the discovery of oil in Iraq would further fuel these conflicts and increase the importance of private actors (in the form of oil companies) in Iraq's development process. This revelation led to a period in the history which saw the beginning of public-private interactions in Iraq. Analysis of these interactions revealed that major governments often use oil companies as their instruments to achieve diplomatic goals with oil companies welcoming their support in the quest to gain oil concession agreements. These interactions were hardly surprising considering the fact that the early development of Iraq and its oil industry was in the colonial period with British occupation in many countries of the region including Iraq. One notable example of such interactions as presented earlier in the chapter is when the British managed to gain control over Iraqi oil in 1925 through their influence in the Anglo-Iranian Oil Company which resulted in cooperation between the two actors. Therefore, the case study signifies the importance of public-private relationship in the analysis of private authority.

Apart from the public-private cooperation which was vital to the analysis of private authority that emerged from the process of gaining oil concessions, the importance of inter-firm cooperation must also be acknowledged. Here, the role of private actors became even more prominent during the 1920s and the 1930s when major oil companies cooperated in the hunt for oil concessions. In this, the cooperation to establish TPC was particularly significant as it demonstrated how power and authority can be gained from inter-firm cooperation, as they successfully signed the 1931 oil concession agreement (Albareda 2008). Thus, the analysis further suggested that there was increasingly more and more inter-firm cooperation among oil MNEs as part of the strategy in the quest to gain oil concessions. This in turn creates more private actors with greater power and authority in the political, economic and social development process of the host countries. As Pamela Burke (1999: 233) asserts, this

type of cooperation which sees the company working together to achieve the same objective “signifies the private authority that oil companies had in the global and domestic arena”. Evidently, the cooperation led to more success in gaining oil concessions whereby the IPC (TPC) managed to secure all three major concessions under negotiation at the time, leading to them eventually controlling the petroleum rights to virtually the whole of Iraq (Edens 1979).

After gaining control over oil rights through various oil concessions, the IPC increased their domination in the Iraqi oil market and with it gained power and authority to influence the way the Iraqi government controlled its own oil. Thus, the exercise of authority by the state became undermined. Similar to the way in which Louis Pauly (2002) sees the international financial markets, this is a direct result of the government’s failure to take control of the market. This consequently meant that “when we speak of the authority of the market, we appropriately mix private and public categories” (Pauly 2002: 77). Considering this view, it is possible to suggest that the boundary lines between public and private authority are somewhat blurred (see Section 2.1). For the market, the authoritative role which private actors gained allowing them to established rules, regulations and controls over the Iraqi oil market here is directly associated with the exercise of what Biersteker and Hall called “market authority” (Biersteker and Hall 2002: 43). This is however not to say that the state is no longer the source of authority in the market, rather it acts as a referee in the area where it does not have “the resources or does not want to act” (Burke 1999: 250).

Further examination of the case study demonstrates a clear example of how private authority is a function of control of resources such as finances, expertise and knowledge, in particular, in the process of gaining “market authority”. For example, the period right after the July 17 Revolution of 1968 saw the Iraqi government seek assistance from the French, Russian oil companies and many other oil companies to ensure necessary finances, machinery, equipment and technical expertise to develop its oil resources. As a result, the government ended up signing numerous contractual agreements giving foreign oil companies power and authority over many activities to do with the operation and control of the industry. According to Muhammad Mughraby (1966: 56), such partnership agreements “offer more than mere financial

participation in profits [but also] management of the enterprise and the control of its operations”. In this, the signing of such partnership agreements indicates that control of resources was indeed important to the process of gaining authority. The nature of this link can be drawn from Joe Painter’s view on the concept of power and authority. As Joe Painter (1995: 16) suggests, “unequal access to resources accounts for differences” in “the ability of different groups and individuals to pursue strategic actions” for political power and authority. Thus, I would argue, the level of “market authority” in which groups or individuals held in the Iraqi oil industry depended very much on their ability to utilize the resources available to them.

Through the analysis of different oil concession agreements in Iraq, it can be seen that private actors were increasingly taking an important role within the Iraqi oil industry and market. This role has not only affected the establishment and development of the Iraqi oil industry but also the political, economic and social development of the country as a whole. To fully understand the impact of these private actors, we need to go beyond the analysis of individual actors and instead focus on the relationship between all of the actors involved. The case study of Iraq here highlighted various moments where such interactions occurred. This has not only helped us to increase our understanding of public-private relationships and inter-firm cooperation, it also allowed us to better analyze the form of private authority that emerge from the process of gaining the oil concession. In short, if the case study is any guide, it suggests that the rise of the company, such as those of AIOC, TPC, IPC, Machinoexport, Technoexport and Chemokomplex, to an authoritative role in the Iraqi oil industry was due to their ability to cooperate and provide appropriate resources to take control of the oil industry.

## CHAPTER 7: Conclusions

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The thesis has examined the nature and scope of private authority in the international context. The introductory chapter highlighted how scholars in IR and IPE have recently placed significant attention on the role of private actors in global governance. Many have even argued that these private actors are the main source contributing to the economic and technological changes discussed under the term “globalization” which has significantly altered the conditions of global governance in the past few decades (Sassen 2003: 581). Despite the contemporary nature of the debate, some scholars have suggested that non-state or private actors have existed and influenced the establishment of norms, rules and institutions in the international system much earlier than suspected. Thus, the main argument made in the thesis is that public-private cooperation also emerged much sooner than previously assumed. As a result, the thesis suggests that public-private relationship which took specific forms in the past has been majorly under highlighted and investigated.

In historical context, the emergence and progress of International Political Economy as a field of enquiry relies heavily on the political and economic coordination of public and private actors (Section 3.2). This is particularly clear in the way in which the international market develops during the last century with money becomes increasingly important to global political and social progress. In this, the oil industry not only provides a great example of such coordination but it also allows platform for fruitful interactions among public and private actors which is seen as vital to the emergence of private authority. Thus, the analysis produced in this thesis mainly concentrates on the interaction between public and private actors in the oil industry with particular focus on various oil concession agreements of the past.

Through the examination and analysis mentioned above, this chapter summarises the main theoretical and empirical findings and draws together the overall conclusions of the thesis. In this, the chapter is organized into four parts. The first part discusses the theoretical implications of the research in detail. The second part presents the main empirical findings of the research. The third part critically reflects upon the process

of planning and conducting the research including overall contributions. The final part highlights recommendations for future research within the field of study.

## **7.1 Theoretical Implications**

The examination and analysis of private actors in the oil industry in this research highlights a number of implications for the concept of private authority in the international system. The overall theoretical contribution of the thesis has been in developing an understanding of private authority in historical context in terms of its emergence, operation and development.

The research has illustrated that most of the literature that examines private authority in the international system has only emerged in the last few decades with particular attention to the phenomenon of “globalization” (Biersteker and Hall 2002; Burke 1999; Buthe 2004; Cohen 2003; Cutler et al. 1999; Haufler 2004; Keohane 1993; Sassen 2003; Sinclair 1999; Strange 1996). Concentrating primarily on the case of the internationalization of markets and the emergence of transnational information and communication networks, these literatures have argued that the autonomy of national governments in defining and providing public goods, a function classically associated with the nation-state, is being challenged in a major way (see Chapter 2). Alongside this argument, it was widely agreed that that the dramatic increase in the number of political, economic, and social changes brought about by globalization have somewhat blurred the line between the public and private dichotomy both at the national and international levels (Section 3.5). This further challenges or even undermines the status of the state as the sole regulator of social and economic affairs (see Section 2.1).

The thesis has found that one of the main factors contributing to the change in the nature and role of the state in the international system is economic and technological interdependency. This is mainly due to the fact that such interdependencies creates a range of problems that exceed the scope of national sovereignty which can no longer be sufficiently resolved by the unilateral action of national governments (Section 2.1). As a result, recent studies have turned their attentions to the potential of private

governance contributions from non-state or private actors. This is seen as compensation for the decreasing capacities of national government in defining and providing public goods. Here, it was found that such private governance contributions can emerge from a diverse array of private actors such as business associations or multinational companies.

At both the national and international level, the research has identified non-state actors to be any actor that is not a state, including general public opinion groups, multinational corporations, non-governmental organizations (NGOs), international governmental organizations (IOs), formal/informal transnational networks of government bureaucrats, international professional associations and commercial lobbying groups, as well as international criminal and terrorist networks (Section 2.3.1). Together with this, the cooperation among non-state/private actors that results in the creation and implementation of issue-specific transnational norms and rules was found to be the key to the subsequent shift from public to private forms of governance and authority. The thesis demonstrated this by highlighting the essential role in international governance played by non-governmental organizations (NGOs) recently as a consequence of neoliberal marketization which saw the services once provided by public intergovernmental organizations contracted to private, non-governmental and often social movement style organizations.

Through extensive analysis of the work of Claire Cutler, Virginia Haufler and Tony Porter as presented in Chapter 2, it was evident that “the framework of governance for international economic transactions is increasingly created and maintained by the private sector and not by the state or interstate organizations” (Cutler et al. 1999: 3). The concept of “private authority” that is not easily derived from traditional theorisations of political authority was found to be essential to the analysis of various political issues (Section 2.4). To put it simply, the work of scholars mentioned above suggests that the state-centric approach to the understanding of authority is somewhat obsolete. Instead, the analysis of political authority, in particular private authority, was seen to be heavily reliant on the ability to understand the providing and maintaining governance institutions. According to Cutler et al. (1999: 334), this not only requires resources but also cooperation in the form of compliance with a certain amount of “surrendering of individual judgment”. Such act represents “an

acceptance of its dictates based not on the merits of any particular pronouncement but on a belief in the rightness of the authority itself” (ibid.: 334). In this, it was found that the institutional structures have an important impact on the capacity of public and private actors to govern which is in turn influenced by economic and technological changes (see Section 2.4.1).

The examination of the concept of authority also suggested that the most important institutional factors affecting the governance capacity of private actors are the organizational structures and the institutional characteristics of relevant decision-making arenas. In this, it was found that the degree of organization refers to the extent to which private actors are organized or willing to contribute to the provision of public goods by private organizations which relates to its resources including financial, personnel, and technological capacities, as well as scientific expertise (Section 2.4.1 and 2.5.1). Here, the thesis revealed that the effectiveness of private governance or authority directly linked to the fact that private actors tend to hold more appropriate resources for developing corresponding solutions than do bureaucracies, particularly with respect to complex technological problems. Thus, as firms increasingly coordinate production on a global scale, creating much more complex relations and networks, they are better equipped to provide and maintain resources for public demand with better effectiveness than those of the state (Section 2.4.3). The analysis therefore illustrated that one of the key dimensions for the emergence of private authority from cooperation and the creation of international institutions is the individual institution’s ability to meet public demand for goods and services.

In thinking about the behaviour of private firms and institutions, the investigation of the work of scholars such as Cutler et al. has revealed that private actors do not always act as atomistic competitive units that aim only to maximize their profits but instead often cooperate to construct a rich variety of institutional arrangements that structure their behaviour (see Section 2.4.3 and 2.7). This is mainly because through such arrangements it was found that it is possible for private actors to deploy a form of “private authority” with major effects and importance to the understanding and analysis of not only private actors themselves but also the state and its policies (ibid.). Moreover, it was realised that private authority can also emerge from the

interactions between public and private actors where private actors may draw on the capacities of the state in constructing private authority and the state may delegate private actors to assume certain responsibilities in order to gain efficiency (Section 2.5.2).

Through an examination of the work carried out by Biersteker and Hall (2002) on the emergence of private authority in global governance, the thesis has identified with at least three major forms of emerging private authority, namely, market, moral and illicit authority (Section 2.5.2 – 2.5.4). Although they emerge and operate in different realms, the three types of authority each involve “consent” which may be based on or a product of persuasion, trust or apathy, rather than coercion. This is found to be socially constructed through a variety of different political and theoretical practices such as behavioural consent to routines, norms, and public declarations of recognition (see Section 2.5.1).

As the thesis drew upon various case studies of colonial era as the main analysis of the research, it was clear that the understanding of public/private power and authority in relation to the discipline of political geography and the concept of colonialism and expertise was vital to the analysis as a whole (Section 2.6.2). For instance, (1) the thesis found that because the development of the colonial empire very much depended upon resources and expertise, particularly technical ones, the emergence and development of power and authority were tied to individuals’ ability to acquire and provide resources and expertise (Mitchell 2002), (2) the thesis identified the fact that because power and authority is always and everywhere – redistributed between different levels from regional and national state actors to non-state actors, public and private actors often exercise their power and authority in ambiguous space under different circumstances (Allen 2003). Hence, while the position of major powers in the region had a direct influence on the outcome of each oil concession, resources and expertise of oil companies had played a major part in the process of negotiation and implementation. This had not only affected the behaviour of each individual actor involved in the concession, it also had substantial impact on the way in which private authority was gained and exercised. Thus, proper understanding of mentioned discipline and concepts was found to be crucial to the analysis of private authority in the thesis (Section 2.7).

## **7.2 Empirical Findings**

The four case study chapters (Chapter 3, 4, 5 and 6) have explored the emergence, operation and development of private authority in the oil industry. The research findings from these chapters have provided the basis for the conclusions to the five research questions set out in the introductory chapter (Section 1.3) below:

1. In what ways do private actors become authorities in international affairs?
2. How does the emergence of private authority affect the distribution of power, authority and control of political actors both at the national and international level?
3. To what extent does private authority impact the relationship between state and non-state actors?
4. Does private authority in any way effect the political, economic and social development of the world?
5. In what ways does private authority influence the governance of important spheres of political, economic and social life?

In attempting to achieve the central aim of the thesis in examining the implications of private authority for global governance and political affairs, the following sections discuss conclusions to each of the research questions above.

### 7.2.1 Emergence of Private Authority

The four case study chapters have examined the concept of private authority and its implications in historical context. The background study to the research presented in Chapter 1 has revealed that the birth and development of the IPE as a field of enquiry

relied heavily on the political and economic coordination of public and private actors (see Section 1.1). One of the prime examples of such coordination was found within the oil industry. Through a detailed examination of the oil industry and market in Chapter 2, the presence of private authority was explored around the possibility that private actors such as NGOs, transnational actors and other institutions can exercise various forms of legitimate authority through their interactions. Despite detailed relational analysis of the practices and activities of these actors, it was found that it is difficult to pinpoint the exact moment when the new mode of authority emerges and what domain it emerges from. Although this is the case, many aspects regarding the emergence of new forms of private authority was highlighted. For instance, it was found that private actors often singly and jointly construct a rich variety of institutional arrangements that allow them to acquire and deploy various forms of private authority. Further, the findings in Chapter 2 have also illustrated that the oil concession agreement did indeed capture the early signs of the emerging historical relationships between public and private identities (Section 2.6) providing a great platform for the analysis of the concept of private authority in historical context.

The investigation of the Saudi oil industry and market between the 1930s and 1950s in Chapter 3 has shown that private authority was often embedded within the practices and activities of oil companies that were heavily linked to the structure of the industry and market (see Section 3.3). In particular, the structure which relates to establishing and maintaining of various institutional and administrative functions in the industry and market that apply to all actors involved. In this, it was found that due to a lack of resources, the Saudi government had to cooperate with and eventually depend on the oil company to both establish and maintain the structure of its oil industry. These actions were seen to be the major factor that altered moments of authorization, power and control in the Saudi oil industry, hence the emergence of private authority. Moreover, the evidence from the case has also shown that this change in distribution of power, authority and control was directly linked to overall political and economic situations in the Saudi oil industry itself. As a result, political and economic changes were also considered to be the key in influencing many practices and activities of the above mentioned actors. For instance, one of the major events which majorly affected actions of both the government and the oil company that led to shifts or changes of authorization in the case was the First World War.

Also applying to other cases, notably Kuwait (Chapter 6), not only did the War force major powers to compete for oil concessions to maintain their supremacy, it also pressured a number of countries in the Middle East and beyond to find ways of gaining revenues (such as selling concessions to its natural resources) to counter the economic difficulties of the period (Section 6.4). In this, Chapter 4 and 5 have also examined such themes with interactions between major powers and countries of the case study central to the analysis (see Section 4.2 and 5.3).

With the change in the nature of power, authority and control identified within the industry, the case study chapters have also revealed the early signs of the emerging historical relationships between public and private identities, mainly, the producing governments and the oil companies. Chapter 3, 4, 5 and 6 demonstrated that the emergence and development of this relationship relies greatly on set of circumstances that led to the emergence of various forms and modes of private authority. These set of circumstances was found to be involving three conditional factors, namely, (1) political and economic situations, (2) resources in the form of financial and expertise, and (3) prospect of gains relating to revenue or power and authority.

### 7.2.2 Operation of Private Authority

In Chapter 3, a thorough analysis of public and private interactions in the Saudi oil industry indicated that the concession agreement has given the oil company a privilege position allowing them power and authority in the form of “market authority” to influence many political and economic issues in the country, especially those to do with the oil industry itself. For instance, during the implementation period of the 1933 oil concession agreement, the Standard oil Company of California (SOCAL) was able to gain access to governmental decision-makers by virtue of their relationships with officials, their position within the Saudi oil industry and their resources and expertise (see Section 3.4, 3.5 and 3.7). This has profoundly influenced the way in which standards and regulations of the Iranian oil market were

set and as a result gave the oil company a great degree of authority in the national oil market.

Based upon all four of the case studies examined, it can be argued that private authority can be gained using a social welfare and development strategy (Section 3.8, 4.6, 5.5 and 6.6). This is when non-state or private companies embedded social awareness thinking in the core of their overall policy. Ranging from carrying out social services to building relations with local community, both alongside its normal day-to-day operations, these practices and activities can be done through various social projects initiated by the company themselves. In the case of Saudi Arabia (Chapter 3), SOCAL carried out their operations using a strict social development approach, providing and maintaining public services. This has gained them tremendous support from both the government and local community which in turn allowed them to take charge in advising and leading the country in carrying out its social development projects (see Section 3.8). The approach also helped the company to not only run their oil operations smoothly but also gain private authority in the form of “moral authority” (see Section 2.5.3). Thus, the social relations strategy can be seen as key to the relationship between SOCAL and the Saudi government which was found to be vital to the emergence and operation of private authority.

Chapter 4 has explored and analyzed various stages of public and private relationships through the process of gaining the oil concession in the Iranian oil industry in the 1950s. Confirming the theoretical framework set out in Chapter 2 and continuing from the argument of Chapter 3, there is clear evidence indicating the significance of non-state or private actors from the very beginning. The Iranian oil crisis and oil consortium agreements that followed have highlighted the cooperative relationships among state-actors and multinational oil companies (Section 4.4 and 4.5). Interacting with each other through a series of negotiation rounds, the process of the agreement captured how the oil majors gained their “private authority” through their abilities to offer state-actors both financial resources and expertise to deal with the oil crisis (see Section 4.7). Although this is the case, it was also found that the oil company also depended on the Iranian government for infrastructure, internal and external security and legal order.

As revealed in Chapter 3 and 4, due to certain circumstances, private actors sometime take on a role which is traditionally carried out by the state. For instance, the Anglo-Iranian Oil Company (AIOC) took over regulatory responsibilities of the Iranian oil market from early 1900s to late 1950s as a direct result of the government's inability to provide appropriate resources to control their own oil market (see Section 4.4 and 4.7).

### 7.2.3 Private Authority through Public and Private Interactions

Despite the fact that private actors were found to be vitally important to the emergence and operation of private authority, the examination of the four case studies has illustrated that the understanding of the concept of private authority cannot simply concentrate on these actors alone. Rather, these actors must be investigated in relation to state actors as noted in the theoretical framework (Section 2.7). Thus, as stated in Chapter 2, private authority is therefore considered to be emerging from the interactions among state and non-state actors. In this, there is clear evidence in each of the four case studies to suggest that private authority does indeed exist in practices and activities involving such interactions. For instance, the analysis in Chapter 5 has shown that Anglo-Persian Oil Company (APOC) and Gulf Oil Company (Gulf) only managed to gain the 1934 oil concession in Kuwait through cooperation which eventually leads to them gaining private authority (see Section 5.2 and 5.3).

Chapter 5 also revealed that the parent governments involvement in the agreement were also vital to the success of the oil companies. For instance, in the case, the British and American interactions with each other and with the oil companies led to the establishment of Kuwait Oil Company (KOC). In this, the evidence has clearly shown that the presence of both major powers in the region was somewhat crucial to the process of gaining a concession and the emergence of private authority (Section 5.3). Due to the prospect of financial and strategic gains, the British and Americans increased their involvement by intensifying their support to the oil companies in their quest to complete the oil agreement. Such support came in the form of

diplomatic work and financial aid, both of which helped improve the oil companies' position in negotiating for the agreement in its own way.

Additionally, the analysis of the Iraqi oil industry in Chapter 6 has also highlighted historical interactions among state and non-state actors. Acting as a frontier outpost of the Ottoman Empire run by the Turks from the middle of the Seventeenth Century before falling under the British military control in the early Twentieth Century and emerging as an independent political entity in 1932, Iraq saw great interactions between colonial powers within the region (Section 6.1). In this, it was found that colonial powers, in particular the British, hold great influences in the negotiation and operation of the oil concession within the country. Similar to Chapter 3, 4 and 5, the investigation in Chapter 6 revealed that such influences range from the way in which major powers acting in support of their oil companies in the process of gaining control over oil resources to them fighting over control of the country that in turn affect the development of the oil industry. These practices and activities imply that "states are [indeed] facilitating the private authority of actors" (Cutler et al. 1999: 230).

#### 7.2.4 Significance of Private Authority

As discussed in the analysis of each of the four case studies, through gaining oil concessions and control over oil rights in the producing countries, the oil company became dominant not only over the oil market in that particular country but also over the countries' overall development. This has resulted in major changes in the way in which political power and authority is distributed and developed. The role of the state as a result changed making non-state actors increasingly important in the governance of the international system (see Section 2.4). As noted earlier, the failure of the producing governments to take control of the oil market is the key here, with strong evidence suggesting the power and authority of the state was being challenged or even undermined. As a result, it was found that one cannot speak of authority, particularly those relating to market authority, as a function involving only either public or private actors. Instead, the political debates involving the concept of authority need to consider all actors, mixing both public and private categories

together. Thus, it is not surprising to find that the analysis from the case studies sees the line between public and private authority as somewhat blurred.

Although it was clear that the state lost control of the market mainly due to lack of resources, further analysis in Chapter 2 and 4 has revealed that loss of market control was also due to policies set by the government themselves. This is in the fact that the state sometime delegates their tasks to non-state actors in order to avoid responsibilities or gain better efficiency (see Section 2.5.2, 2.7 and 4.3). For instance, the Iranian government during the period of their oil industry establishment allowed the Anglo-Iranian Oil Company (AIOC) to take charge in setting rules and regulations within the oil industry. In addition, they also abdicated the responsibilities of protecting oil resources and operations within their territories to AIOC (Section 4.3). Whether this is because the Iranian state is simply “reducing its authority to market-based forms of decision-making [or playing a crucial role] in the production of a new international framework” (Biersteker and Hall 2002: 207), the case studies have illustrated that states are no longer the sole source of political authority as explained earlier.

Under the concession agreement investigated, it was evident that private actors may carry out many practices and activities which illustrate that private political authority does indeed exist alongside public political authority. Through complex relationships between state and non-state actors, these authorities coexist as part of the process in the national and international market aiming to improve economic and social conditions. Thus, as pressure for such aims increase, the rise in the importance of private actors became inevitable resulting in the change in the nature of state sovereignty as mentioned.

The significance of the change in state authority can be seen from observations made in the analysis of the four case studies presented. For instance, in several cases involving the implementation of the oil concession agreements, the oil companies were seen to take on the role of a quasi-public actor. As noted in Chapter 3 and 5, this role refers to private actors taking on responsibilities that are traditionally associated with public actors (Section 3.3, 3.7 and 5.6). One of the prime examples of this was presented in Chapter 5 when the Kuwait Oil Company (KOC) was found

to be advising both local and national governments on how to develop, operate and maintain business enterprises in Kuwait. As this led to great influences from KOC in the overall development of a business structure in Kuwait, such action signifies “private authority” in the form of “market authority” (see Section 2.5.3 and 5.4).

Moreover, the observations from the four case studies mentioned also suggested that the market authority of private actors is challenging or even undermining the sovereign authority of state actors. Either way, it was found that such forms of private authority have emerged and developed to a degree that it has a strong influence in determining how certain rules, regulations and standards are formulated both at the national and international level. This is not to suggest that private authority is replacing public authority in any way, but instead that there is clear evidence to highlight that sovereign authority in term of the regulatory monopoly of the state is transforming. This phenomenon is again a direct result of the presence and actions of non-state actors. Thus, consideration of all forms of public and private authorities exercised in relation to each other is vitally important to the understanding of various issues arising from debates in international political economy.

#### 7.2.5 Private Authority and Corporate Social Responsibility (CSR)

As noted throughout the empirical chapters of the thesis, private authority has long emerged and operated alongside public authority. As part of public-private relationship which took specific form in the past, the exercise of private authority has grown steadily and seen a dramatic increase during the past few decades. This in turn results in a renewed scholarly interest in the nature of the influence of non-state or private actors at both the national and international level. As the role of these private actors becomes more important to world political debates, their responsibilities have somewhat also become extremely complex and difficult to analyse. As a result, it was found that scholars have turned to one particular concept as a framework for the analysis to gain better understanding of these private actors. In this, the concept that was widely used as a tool to analyse multinational oil corporations in oil producing

countries by many scholars is the concept of Corporate Social Responsibility (CSR) (Falck and Hebllich 2007; Guenther et al. 2007; Vaaland and Morten 2008).

Investigating the oil and gas sector, scholars such as Jędrzej Frynas (2005), Lars Gulbrandsen (2005) and Arild Moe (2007) have argued that multinational oil companies has been among the leading corporate agencies in championing Corporate Social Responsibility (CSR). In this, Frynas asserts that the concept of CSR results from the fact that “oil companies [have recently] attached greater importance to their social and environmental impact [and engaged] more with local communities” (Frynas 2005: 581). Although this is the case, evidence from the findings in this thesis suggests that, just like the concept of private authority, the idea of CSR has existed and has been adopted by the oil companies much earlier than many scholars previously assumed.

According to Uwafiokun Idemudia (2007: 369), “CSR is not at all new to most societies in developing counties, as most do have a long-standing tradition in which businesses are expected to meet certain social obligations”. Today, this has led to increasing demands on multinational corporations (MNCs) and enterprises (MNEs) to provide “community development programmes and assistance to their host communities” in their social development (Eweje 2006: 218). Thus, it can be argued that the concept of CSR which has only emerged during the past few decades has its roots from the practices and activities relating to social welfare development projects of MNCs and MNEs in the beginning of global economic integration. The four case studies presented in this thesis clearly illustrate the logic of this argument. This is in particular with the examination of social welfare projects carried out by various oil companies dating back to the early part of the 1900s (see Section 3.8 and 4.6). For example, the findings in Chapter 3, 4 and 5 have shown that oil companies in the 1920s, 1930s and 1940s were heavily involved in establishing and maintaining many public facilities and services including health and education, all of which reflect contemporary practices of CSR today that have been adopted by major oil companies as part of their operational strategies (see Section 3.8, 4.6 and 5.5).

As noted in Chapter 1, the thesis also carried out semi-structured interviews and questionnaires in an attempt to gain some contemporary perspectives to the analysis

(Section 1.4.2). In this, a careful analysis based on interviews with managers, engineers and staffs who are involved in various areas of the oil company's operations in different oil producing countries has illustrated that responsibilities and the activities of oil operations today can very much be traced back to the early establishment of the oil industry as presented in the four case studies (Chapter 3, 4, 5 and 6). For instance, it was found that companies in the oil industries of today, especially those operating in the developing country, play a major part in social and economic development of the host countries. In this, their involvements in the community range from employment and housing projects to education and training projects, similar to those discussed in the case studies (Bectel 2008).

Despite many similarities in the nature of the projects mentioned above, one major difference is in the fact that these social development programmes are now embedded within many companies' codes of conduct (ibid.). According to Julien Levis (2006), this is the result of genuine corporate intent as well as external pressure. CSR codes of conduct act as an answer to both public scrutiny on MNCs/MNEs to avoid alienating the community and corporate strategy to maximise business gains. To put it bluntly, CSR aims at integrating social demand as far as it remains beneficial to companies (Frederick 1994). Although the exact motive of companies in adopting social development strategies is still unclear, practices and activities involving social welfare of the people in the host countries are now at the core of their overall operations.

As illustrated in Chapter 3, 4 and 5, not only did CSR projects allow these companies to operate smoothly, it also gives considerable amount of authority in term of creating rules, regulations and standards in many establishments of the host country. Adopting CSR agendas therefore permit the company to carry out social development programmes. From the analysis in Chapter 2, the practices and activities of these programmes can be considered as a function of "moral authority" (see Section 2.5.3). In this, taking the concept of "moral authority" in the form of "epistemic authority" which involved expertise of non-state actor as presented in the analysis (Section 3.3, 4.3 and 5.2), CSR practices and activities of today support the theoretical framework that private authority is a product of expertise as discussed in Chapter 2 (Section 2.5.3). As oil companies engage in social welfare practices and

activities that go beyond their main industrial activities, expertise in other areas is needed. Ranging from sponsorship of cultural institutions to support for research and science, environmental issues provide prominent example of the importance of expertise in CSR. For example, personnel from oil companies with far more expertise often persuade the regulatory bodies to take their viewpoint in setting and maintaining rules and regulations within the industries (TransAlta 2008). Thus, as noted in Chapter 4 (Section 4.7), expertise is therefore crucial to the relationship between oil companies and host governments, hence the emergence of private authority.

The findings have showed that many social welfare practices and activities contributing to the emergence of private authority in the past can be linked to the concept of CSR today. It is therefore appropriate to state that to gain a better understanding of private authority exercised by non-state or private actors in the contemporary world, there is a need to understand the historical development of various concepts similar to CSR.

### **7.3 Reflections on the Research Process**

As no research findings are completely independent of the research methods used, it is vital to discuss the methodology employed in the research as noted in Chapter 1 (see Section 1.4). In this, the complex nature of the research has meant that there were number of challenges and problems in the research process. These needed to be critically addressed or at least reflected upon. So, to better appreciate and understand the findings presented in this thesis and to efficiently recommend other possibilities for future research within the field, the limitations of research methods adopted, other approaches to the research and improvements in research process need to be identified.

As noted in Chapter 1, access and confidentiality were the two main issues occurred during the process of preparing and conducting the research. As the research is set in historical context (1890s to 1960s), any access to personnel or documents relevant to this period was found to be tremendously difficult. The personnel involved in the oil

concession agreements chosen as case studies in the period either passed-away or were unreachable. The nature of archival research means that appropriate documents for the analysis often take longer to find. Access to documents or personnel within various companies of the case studies was also limited due to restricted travelling funds available for the research and confidentiality policy of each oil company. After considerable investigations into various ways of gathering the data needed for the research, I was able to overcome these issues using several methods as discussed below:

1. Due to the fact that it was impossible to gain access to the personnel involved in the oil concession agreements as proposed in the case studies, I resorted to the idea of accessing experiences of personnel in the oil industry by relying on personal diaries and other personal documents.
2. As the only way to gain meaningful experiences from those involved within the oil concession agreements at the time is through documents, I decided to focus on archival research as the main method to gain data necessary for the analysis. In this, I concentrated on finding documents such as personal letters, diaries and memos which could provide fruitful insight into public-private interactions occurring in each of the case studies.
3. With difficulty in collecting relevant data when visiting archives as mentioned in Chapter 1 (Section 1.4.2 and 1.4.4), proper plans were drawn before entering archives to carry out research more effectively. These include carrying out proper appointment/document requests, time-planning, extensive online catalogue search and accommodation/travel arrangements before visiting archives.
4. The confidentiality policy held throughout the oil industry community meant that any request for interviews or access to official documents needed to be managed with careful attention. In this, the request was sent out as early as possible to give each company plenty of time to respond. Due to a low response rate of reply, I turned to Durham University Alumni Office for help which eventually led to much improved responses (see Section 1.4.4).

The research was concerned with practices and activities involved in public-private interactions during the oil concession agreements of the early twentieth century. As a result, data needed for the analysis are mainly correspondent letters and documents that relate to public-private interactions in the negotiation and implementation of the concession. Adopting archival research as the main method in collecting data may have influenced the research in term of data interpretations. At times, there were concerns that certain documents may well have been interpreted to fit in with the theoretical framework. I however managed to avoid this by always finding more than one set of evidence when dealing with a specific area of analysis.

Although much archival research has been undertaken in each of the case studies, if it was in any way possible, direct interviews with those personnel involved in the case would be tremendously beneficial to the research. Despite the case studies set in historical context, I could have also travelled to each of the countries and oil companies in the case as this would give me great insight on how past practices and activities have resulted in today's operations. This was however impossible due to time and financial constraints. Overall, I feel that the enhanced access and data I gained from using the archival research method central to the research findings has been sufficient and probably outweighs any research issues or difficulties discussed here.

#### **7.4 Recommendations for Future Research**

In undertaking this research, a number of areas for future research can be identified. In this, the findings suggest the need for future work both regarding to empirical and theoretical perspectives. At the same time, the research conducted here although highlighting many insightful discussions in the phenomenon of private authority, created many questions regarding the nature of the concept. In this, the private authority literature does not sufficiently explain the historical development of the concept or indeed pinpoint exactly when and where private authority emerges (Biersteker and Hall 2002; Burke 1999; Buthe 2004; Cohen 2003; Cutler et al. 1999; Haufler 2004; Keohane 1993; Sassen 2003; Sinclair 1999; Strange 1996). In

particular, a provisional typology of three forms of private authority proposed by Hall and Biersteker (2002) was found to be complex when apply to the analysis of each case study. Thus, despite the useful contribution in exploring the phenomenon of private authority and its importance in the international system, there is clearly more conceptual work to be done.

In the context of private authority itself, the theoretical framework established has suggested how the concept might be further explored. As noted in Chapter 2, private authority often emerges through public-private interactions creating an authoritative role that hold by a mixture of public and private identity. Thus, future research into this type of role would therefore provide further insights into the emergence and operation of various forms of private authority.

Further, in-depth examination of the four case studies (Chapter 3, 4, 5 and 6) has also provided two main suggestions for future research. First, any future research relating to the concept of private authority should examine two particular forms of authority for more comprehensive findings to the analysis. One, private authority in the form of “market authority” that was found to be involved with resources and expertise of private actors. Two, private authority in the form of “moral authority” that was found to be linked with activities of a socially progressive or perhaps a morally transcendent agenda. Second, as discussed in Section 7.2.5 above, considering the fact that the concept of corporate social responsibility (CSR) reflects so much of the practices and activities carried out by various oil companies in the early part of the twentieth century as presented in the thesis, contemporary investigations of private authority of multinational corporations (MNCs) and enterprises (MNEs) should include or at least consider CSR concept in the overall analysis.

For a more comprehensive view on the concept of private authority both at the national and international level, it is clear that further theoretical and empirical work is essential. The intention in this thesis is to provide another dimension to the debate and understanding of the emergence of private authority, in particular, to offer historical perspectives. A great degree of understanding has been achieved regarding the construction and operation of the concept of private authority through this intention. Not only did the research revealed that the emergence of private authority

relies heavily on public-private interactions, great insight into other factors that majorly influence the way in which private authority constructs and operates has also been identified. Despite this, future research should not concentrate solely on expanding these findings but should also consider exploring other factors and dimensions of the concept with contributions to wider social understandings in mind.

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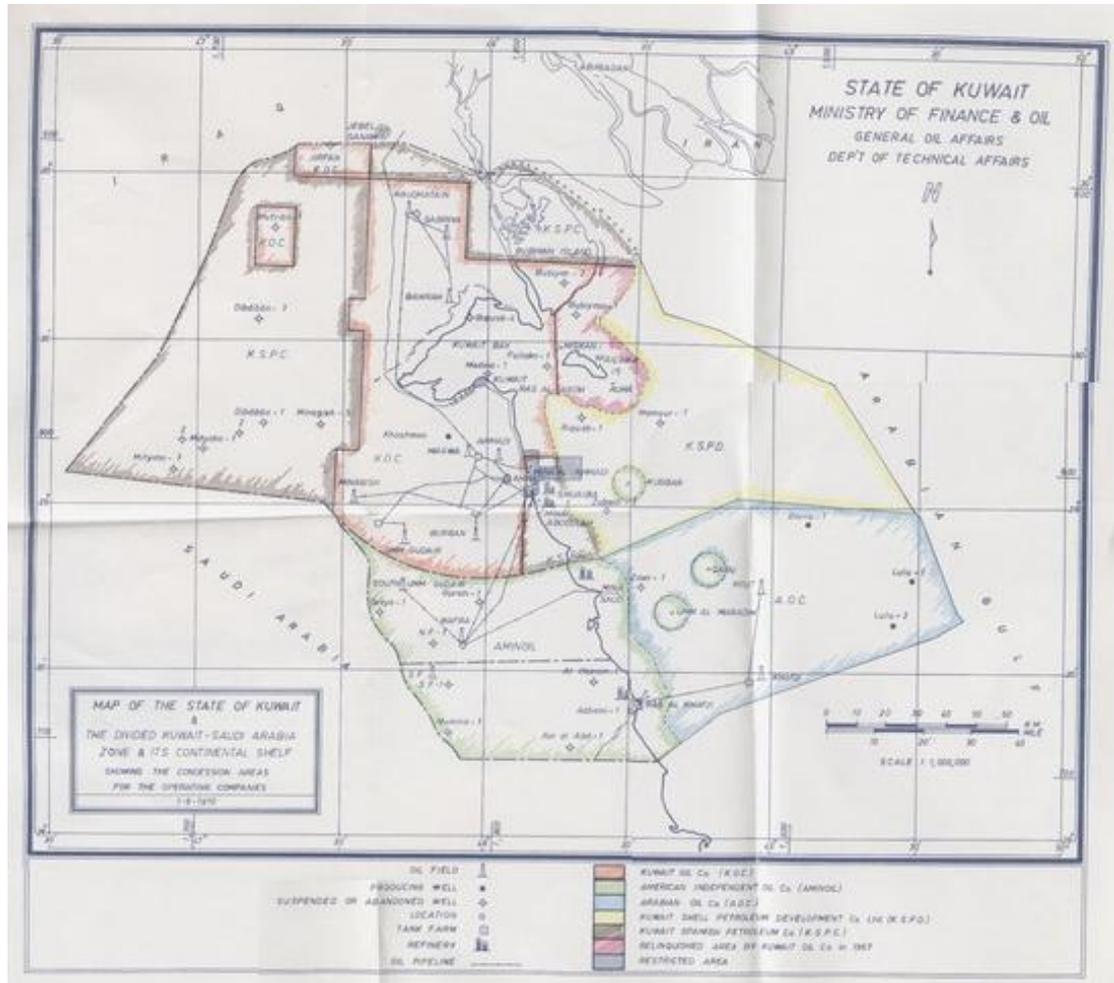
## Appendix 3.1: Statistical data of the crude oil production in Saudi Arabia (1938-1990)

<b>STATISTICAL DATA</b>									
Year	CRUDE OIL PRODUCTION		NGL PRODUCTION		RAS TANURA REFINERY RUNS				Crude/NGL Total Barrels
	Barrels Daily	Total Barrels	Barrels Daily	Total Barrels	NGL*		Crude**		
					Barrels Daily	Total Barrels	Barrels Daily	Total Barrels	
1990	6,257,600	2,284,024,000	533,229	194,628,480	182,455	66,596,005	356,533	130,134,673	196,730,678
1989	4,863,533	1,775,189,418	420,946	153,645,322	128,772	47,001,675	355,663	129,817,129	176,818,804
1988	4,928,100	1,803,684,600	416,213	152,334,074	146,237	53,522,718	453,352	165,927,009	219,449,727
1987	3,991,000*	1,456,715,000*	344,921	125,896,101	76,880	28,061,254	381,902	139,394,104	167,455,358
1986	4,689,800*	1,711,777,000*	304,178	111,025,144	51,751	18,889,278	390,251	142,441,544	161,330,822
1985	3,041,104*	1,110,002,960*	316,310	115,453,183	53,671	19,589,847	410,985	150,009,582	169,599,429
1984	3,922,079*	1,435,480,914*	355,069	129,955,261	93,648	34,274,985	396,069	144,961,130	179,236,115
1983	4,374,300*	1,596,619,500*	330,102	120,487,537	95,747	34,947,581	439,226	160,317,440	195,265,021
1982	6,327,220	2,309,435,349	429,503	156,768,678	189,760	69,262,319	431,166	157,357,461	226,637,780
1981	9,623,828	3,512,697,344	448,169	163,581,568	254,303	92,820,656	416,421	151,993,702	244,814,358
1980	9,631,366	3,525,080,035	369,232	135,138,900	282,968	103,566,332	418,550	153,189,236	256,755,568
1979	9,251,079	3,376,643,747	309,261	112,880,425	303,226	110,677,552	395,809	144,470,156	255,147,708
1978	8,066,105	2,944,128,176	253,107	92,384,162	249,341	91,009,310	409,511	149,471,353	240,480,663
1977	9,016,952	3,291,187,434	219,450	80,099,254	216,134	78,888,795	422,087	154,061,764	232,950,559
1976	8,343,953	3,053,886,653	184,776	67,627,999	180,914	66,214,612	452,829	165,735,357	231,949,969
1975	6,826,942	2,491,833,893	141,422	51,619,007	137,163	50,064,525	376,934	137,580,882	187,654,407
1974	8,209,706	2,996,542,558	137,632	50,235,620	132,121	48,224,137	482,411	176,079,947	224,304,084
1973	7,334,647	2,677,146,337	97,122	35,449,695	92,266	33,677,022	518,391	189,212,545	222,889,567
1972	5,733,395	2,098,422,603	54,074	19,790,922	49,700	18,190,342	511,223	187,107,593	205,297,935
1971	4,497,576	1,641,615,332	52,067	19,004,557	46,781	17,075,195	512,072	186,906,248	203,981,443
1970	3,548,865	1,295,335,759	52,118	19,023,111	48,213	17,597,592	536,726	195,905,096	213,502,668
1969	2,992,662	1,092,321,543	46,172	16,852,776	43,389	15,837,204	398,920	145,605,683	161,442,887
1968	2,829,982	1,035,773,333	38,466	14,078,417	37,587	13,756,970	380,925	139,418,499	153,175,469
1967	2,597,563	948,110,468	20,396	7,444,633	18,744	6,841,598	378,734	119,988,003	126,829,601
1966	2,392,737	873,349,148	15,559	5,679,120	13,044	4,761,056	310,600	113,368,869	118,129,925
1965	2,024,870	739,077,565	13,868	5,061,989	11,756	4,290,933	304,850	111,270,411	115,561,344
1964	1,716,105	628,094,543	11,012	4,030,509	8,733	3,196,195	274,520	100,474,336	103,670,531
1963	1,629,018	594,591,671	5,800	2,116,947	2,910	1,062,336	266,964	97,441,801	98,504,137
1962	1,520,703	555,056,388	2,900	1,058,571	134	48,869	249,003	90,886,021	90,934,890
1961	1,392,518	508,269,201					248,795	90,810,070	90,810,070
1960	1,247,140	456,453,173					224,894	82,311,386	82,311,386
1959	1,095,399	399,820,590					174,273	63,609,799	63,609,799
1958	1,015,029	370,485,754					168,119	61,363,442	61,363,442
1957	992,114	362,121,478	-	-	-	-	192,623	70,307,301	70,307,301
1956	986,129	360,923,384	-	-	-	-	198,532	72,662,690	72,662,690
1955	965,041	352,239,912	-	-	-	-	203,210	74,171,745	74,171,745
1954	953,000	347,844,850	-	-	-	-	218,752	79,844,596	79,844,596
1953	844,642	308,294,245	-	-	-	-	204,273	74,559,673	74,559,673
1952	824,757	301,860,885	-	-	-	-	169,957	62,204,161	62,204,161
1951	761,541	277,962,605	-	-	-	-	159,199	58,107,534	58,107,534
1950	546,703	199,546,638	-	-	-	-	105,108	38,364,335	38,364,335
1949	476,736	174,008,629	-	-	-	-	126,776	46,269,619	46,269,619
1948	390,309	142,852,989	-	-	-	-	123,186	45,086,139	45,086,139
1947	246,169	89,851,646	-	-	-	-	107,028	39,065,060	39,065,060
1946	164,229	59,943,766	-	-	-	-	80,266	29,297,101	29,297,101
1945	58,386	21,310,996	-	-	-	-	9,458	3,452,363	3,452,363
1944	21,296	7,794,420	-	-	-	-	958	350,774	350,774
1943	13,337	4,868,184	-	-	-	-	-	-	-
1942	12,412	4,530,492	-	-	-	-	-	-	-
1941	11,809	4,310,110	-	-	-	-	1,076	392,924	392,924
1940	13,866	5,074,838	-	-	-	-	285	104,397	104,397
1939	10,778	3,933,903	-	-	-	-	-	-	-
1938	1,357	495,135	-	-	-	-	-	-	-

\*For export and local consumption  
\*\*Excludes NGL production from crude processed in refinery  
\*\*Includes reproduced naphtha.

Source: Arabian American Oil Company (1990: 16)

## Appendix 5.1: Map of the State of Kuwait and Kuwait Oil Company's operations in 1970



Source: Ministry of Finance and Oil (1970b)